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High Income Tax Returns 1975 and 1976

A Report
Emphasizing Nontaxable
and Nearly Nontaxable
Income Tax Returns



Office of Tax Analysis
U.S. Treasury Department
August, 1978

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HIGH INCOME TAX RETURNS: 1975 and 1976

A Report on High-Income Taxpayers Emphasizing Nontaxable and Nearly Nontaxable Income Tax Returns

Chapter 1

Introduction

This is the second in an annual series of reports on high-income tax returns prepared by the Treasury Department in compliance with the Tax Reform Act of 1976. Section 2123 of the Act requires the annual publication of a report containing data on taxpayers with incomes of \$200,000 or more (for income defined in four different ways), including the number of such taxpayers who do not pay any taxes and the importance of various tax provisions in making individuals nontaxable.

The Congressional mandate for a report on high-income taxpayers reflects interest on the part of the Congress in the perennial questions concerning the appropriate level of individual income taxes for individuals and the actual level of taxes that are paid. Thus, the Congressional mandate for information has been interpreted broadly. This report contains data on nontaxable income tax returns, but also it contains data for all high-income returns and for a group of taxpayers called "nearly nontaxables." The nearly nontaxables are those who have so-far escaped the public eye by paying a small amount of income tax, but the amount of tax that nearly nontaxables pay is so small that there can be no

This report was prepared by Allen H. Lerman, Financial Economist, Office of Tax Analysis, under the general direction of Harvey Galper, Associate Director, Office of Tax Analysis.

doubt that they are not carrying a "fair share" of the tax burden. Similarly, while Congress specifically requested information on returns with incomes of at least \$200,000, this report has historical data on other high-income classes.

This report contains data on individual income tax returns for 1975 and 1976. The data on which the report is based have been edited from a sample of tax returns as they were filed, and the sample has been weighted and tabulated so as to accurately represent all returns for the particular year. The data source is the Internal Revenue Service's Statistics of Income, Individual Income Tax data file. For the high-income returns that are the subject of this report, the sampling rate is very high (for some groups all returns filed are actually in the sample) so that the tabulations produced are very accurate.

This report contains the first data reflecting the impact of the Tax Reform Act of 1976. Some of the reforms in this Act were designed specifically to eliminate high-income nontaxables. The effect has been dramatic. Regardless of the income definition used or the particular level of income considered, the number of nontaxable returns fell by well over 50 percent between 1975 and 1976. The tabulations in Tables 1 through 4 in Chapter 4 show that both the actual number of nontaxable returns and their share of all high income returns declined by one-half to three-fourths. The additional analysis in Chapter 6 undertaken to correct shortcomings in the data indicates an even larger decline. For returns with adjusted gross income (AGI) of \$200,000 or more, there were only 22 nontaxables in 1976 as compared with 215 in 1975, a decline of 92 percent. For expanded income, the decrease was from 215 nontaxables to 53, a decline of 75 percent.

For individual taxpayers, the most important changes made by the Tax Reform Act of 1976, were the strengthening of the minimum tax on preference income and the new limitations on tax shelters. Four minimum tax changes were effective in 1976. First, the amount of preference income excluded from the minimum tax was reduced from \$30,000 plus all of ordinary income tax liabilities to the larger of \$10,000 or one-half of ordinary tax liabilities. 1/ Second, the minimum tax rate

1/ The \$30,000 and \$10,000 exclusions are halved for separate tax returns of married persons.

was increased from 10 percent of preferences in excess of the exclusion to 15 percent. Third, a new preference item specifically intended to eliminate high-income, nontaxable returns was created. Beginning in 1976, itemized deductions (other than casualty losses and medical expenses) are a preference item to the extent that they exceed 60 percent of AGI. Thus, any return on which itemized deductions (other than medical expenses and casualty losses) exceed 60 percent of AGI by at least \$10,000 is subject to the minimum tax and, therefore, cannot be nontaxable. 2/ Fourth, intangible drilling costs on productive wells in excess of the amount deductible if the expense had been amortized became a preference item.

After summarizing the major conclusions that can be drawn from high-income tax return data for 1975 and 1976, this report explores the importance of the concept used to measure income and examines the overall significance of high-income returns. Data for all high-income returns are presented, together with separate data for nontaxable returns and for nearly nontaxable returns. The report examines whether nontaxable, high-income individuals are a unique phenomenon or whether they are merely extreme cases of high-income people who are avoiding their fair share of the tax burden. The report analyzes the methods by which high-income individuals may still severely minimize or completely eliminate Federal income taxes.

This report also provides a large selection of raw data from high-income tax returns for use by investigators outside government. At the end of this report, there are three statistical appendices. Two of the appendices contain statistical tables with data for 1976 and 1975 which together with tables in the body of the report contain virtually all of the data about high-income returns that are currently available for 1975 and 1976 returns. The third appendix contains data for 1974 high-income tax returns that have been reclassified to be consistent with 1975 and 1976 data. These appendices should be useful in the examination of many additional questions about high-income taxpayers. Except for some of the tables in Chapter 6, all of the data in the tables are from the tax returns as originally filed by taxpayers. Any changes which have been made or are likely to be made as a result of Internal Revenue Service audits are not reflected in the tables.

2/ \$5,000 on separate tax returns of married persons.

Chapter 2

Highlights

1. The Tax Reform Act of 1976 was extraordinarily successful in reducing the number of high-income nontaxable income tax returns. For tax returns showing adjusted gross income (AGI) of \$200,000 or more, the number of nontaxables fell to only 22 in 1976 from 260 in 1975, a decline of 92 percent. The proportion of nontaxables fell from 1 out of 130 high-income returns in 1975 to about 1 out of every 2,000 returns in 1976. As measured by the more comprehensive definition of expanded income, the decrease was similar, although not quite so dramatic. The number of nontaxable returns fell by 75 percent, from 215 in 1975 to 53 in 1976. This is far fewer than in any year since data became available in 1966.
2. The number of high-income nontaxable returns is not a good measure of the number of high-income individuals who avoid paying a fair share of the tax burden. For every nontaxable, high-income return there are a significant number of other returns -- called nearly nontaxables -- which do have some liability, but whose effective tax rates are lower than that of a typical middle- or lower-middle income family. As defined by either economic income or AGI, there were almost 500 nontaxable and nearly nontaxable high-income tax returns in 1976. This number is about twice as large as the number of high-income nontaxables in the late 1960's whose existence prompted the Congress to enact the minimum tax.
3. Even the expanded income measure, which is broader than AGI, does not include income from some sources which are very important for high-income individuals. Expanded income understates economic income because taxpayers are allowed deductions for real estate and agriculture expenses in excess of economic costs and because income such as interest on tax-exempt state and local bonds is omitted. The understatement of income causes some individuals with high economic incomes to be omitted from this report. The number of

such individuals, however, is not known. The understatement of income also makes the effective tax rate (taxes as a percentage of income) for all high-income returns appear higher than it actually is.

4. Despite the extraordinary publicity given to high-income, nontaxable returns, most taxpayers with income of \$200,000 or over (however that income is defined) pay substantial Federal income taxes. As measured by expanded income, the income measure which most closely approximates economic income, the average effective tax rate was 30 percent in 1975 and 35 percent in 1976. Over two-thirds of high-income taxpayers paid Federal income taxes in excess of 30 percent of their expanded income, and over 85 percent paid 20 percent or more. In contrast, 2 to 3 percent of all high-income returns had an effective tax rate of less than 10 percent.
5. Despite important conceptual differences between the four income concepts (expanded income, adjusted gross income, adjusted gross income plus preferences, and adjusted gross income less investment interest), use of any of the concepts leads to essentially the same conclusions about high-income nontaxables and nearly nontaxables. This is so because one-half to two-thirds of the same individuals are in all of the high-income nontaxable groups.
6. Nontaxables and nearly nontaxables as measured by AGI do differ in one systematic way: nontaxable returns have very little tax preference income. This is the result of the minimum tax itself. If nontaxable returns had larger amounts of preference income, they would become subject to the minimum tax, and, therefore, could no longer be nontaxable.
7. By and large, returns are not made nontaxable by a single preference, deduction, or credit. However, nontaxability is often produced by one unusually large item in combination with a number of other substantial but not unusual items. Large foreign tax credits and large casualty losses produced most of the nontaxable high AGI returns in 1976. For the high expanded income returns, the most important causes of nontaxability were tax preference income excluded from the tax base (mainly the capital gains exclusion),

charitable contributions, casualty losses, miscellaneous deductions, investment interest expenses in excess of investment income, and the foreign tax credit. Even under present law, the foreign tax credit and the deductions for casualty losses and medical expenses are likely to produce a handful of nontaxables each year.

8. Available data are not sufficient to determine whether many high-income individuals are nontaxable for only a single year which is preceded and followed by years when substantial amounts of taxes are paid, or whether some taxpayers pay little, if any, tax year after year.
9. The detailed analysis of high AGI nontaxables in 1976 indicates that when there is a large foreign tax credit, the credit is usually for a true income-type tax paid to a foreign government. Furthermore, in terms of income as measured in the United States, these individuals paid taxes to foreign governments at very high effective tax rates, typically in excess of 50 percent. Furthermore, in most of these instances, the taxpayers were in fact living abroad and deriving their incomes from abroad.
10. Although the Tax Reform Act of 1976 reduced the number of nontaxables and nearly nontaxables and raised the average effective tax rate modestly for the remaining nearly nontaxables, it did not significantly change the average effective tax rate for other individuals with incomes of \$200,000 or more. In fact, the tax rate on all high expanded income returns other than nontaxables and nearly nontaxables actually declined from 36 percent in 1975 to 35 percent in 1976.

Chapter 3

The Measurement of Income

This chapter first discusses an ideal broad-based measure of income and then outlines the adjustments necessary to obtain a broad income measure solely from data available from tax returns.

Economic Income, the Ideal Measure

Since this report is concerned with the impact of the tax system on high-income individuals, the analysis requires the accurate measurement of income. Economists generally agree that for analyzing the impact of taxes the ideal measure of income over a particular period of time, say a year, is the amount that the individual or family has consumed over that period plus the change in its net worth. For example, if a family has spent \$10,000 and has saved \$2,000 during the year, economists would say that the family had had an income of \$12,000. Similarly, if the family has spent \$10,000 but owned an asset that has decreased in value by \$1,000, economists would say that the family had had an income of only \$9,000 during the year.

A brief examination of the differences between income as defined by economists, so-called economic income, and adjusted gross income (AGI), the concept currently used for income tax purposes, illustrates some of the problems of measuring income, especially for high-income individuals.

Adjusted Gross Income

Tax experts have long been aware that adjusted gross income is deficient as a measure of a taxpayer's economic income. AGI excludes some income such as interest from tax-exempt state and local bonds, social security benefits, the excluded portion of realized long-term capital gains (and all accrued but unrealized capital gains), and imputed rent on owner-occupied housing. Income from certain activities, while not "strictly" excluded from AGI, is deferred to a later year (or indefinitely) for income tax purposes. Depreciation deductions in excess of economic deductions

reduce AGI early in the life of an asset, but the resulting lower depreciation deductions in later years raises AGI. The net effect of accelerating depreciation deductions is to postpone taxes. 1/

Despite the fact that some types of income are excluded, AGI may overstate economic income because some expenses incurred in the production of income are not deductible in the computation of AGI; most of these are deductible from AGI in calculating taxable income, but only if the taxpayer itemizes his personal deductions. 2/ Two types of deductions which fall into this category are employee expenses and expenses attributable to a taxpayer's investments (as opposed to his active operation of a trade or business), including but not limited to investment interest. 3/ Although net

1/ The Internal Revenue Code defines AGI as all gross income that is not specifically excluded from gross income. Among these exclusions are (1) trade or business deductions (other than most such deductions by employees), (2) the deduction for one-half of net long-term capital gains, (3) limited deductions for losses from the sale or exchange of property, (4) deductions attributable to rents and royalties, (5) the moving expense adjustment, and (6) deductions for contributions to individual retirement accounts and H.R. 10 plans.

Gross income only includes income which has been "realized." Thus, for tax purposes, accrued increases or decreases in the value of assets generally are not recognized until a gain or loss is realized by a sale or exchange. Similarly, gross income does not include the value of the services received from the use of durable goods, such as imputed net rent of owner-occupied housing. Finally, interest on state and local government debt and social security benefits are not included in AGI.

2/ Taxes are related to but not calculated from AGI. Taxes are determined by taxable income which equals AGI minus itemized deductions (or, if the taxpayer so elects, the standard deduction) and the deduction for personal exemptions.

3/ For the years covered by this report, alimony payments were also treated as an itemized deduction even though alimony income was includable in the AGI of the recipient. Beginning in 1977, alimony is deducted from gross income in computing AGI.

realized capital losses reduce economic income, only the first \$1,000 may be deducted in the computation of AGI; any excess must be carried forward to future years. 4/

Redefining Income

Ideally, the impact of all taxes should be measured relative to economic income. However, no accurate, detailed data on such a broadly defined income measure are available for a cross-section of American taxpayers. As a practical matter, any broad income measure must be determined from data already contained on Federal individual income tax returns. Thus, a more comprehensive income measure must start from AGI and make adjustments for omitted income and for expenses which ought to be deductible in calculating income.

Omitted Income

Tax returns contain information about only a portion of the income which is included in economic income but excluded from AGI. The omitted income which can be identified on tax returns consists of the dividend exclusion of up to \$100 per taxpayer and the income from sources which were considered to be tax preferences for purposes of the minimum tax. It should be noted that unless such preferences exceeded \$30,000 for a 1975 return or \$10,000 for a 1976 return, 5/ the total amount of such preferences was not recorded, and the excluded half of net long-term capital gains is the only preference item available. The omission is not serious since preference items other than the excluded portion of net long-term capital gains represents less than 20 percent of all minimum tax preference income. 6/

4/ The \$1,000 limit for the deduction of net capital losses applies to years before 1977. For 1977, the limit was \$2,000, and beginning in 1978, the limit is \$3,000. In all years, the limit for married persons filing separately is half of the amounts indicated.

5/ Half these amounts on returns of married persons filing separately.

6/ The 1976 minimum tax preference item of itemized deductions (other than medical expenses and casualty) in excess of 60 percent of AGI does not represent omitted income; hence, it has not been used to adjust AGI.

Despite the inclusion of preference income which is not in AGI but which is identifiable on tax returns, several major sources of income for high-income taxpayers are still omitted: 7/

- interest on tax-exempt state and local bonds;
- certain agricultural expenses which are deducted when paid even though related income items are not includable in income for taxpayers until a later year; and
- straight-line depreciation deductions on real estate to the extent that they exceed economic depreciation.

For real estate, the combination of a shorter life for tax purposes than the true economic life of the property and the straight-line depreciation method produce tax depreciation deductions which exceed economic depreciation in the early years of ownership. At some future time, income may be correspondingly higher, but in the meantime the taxpayer has had the interest-free use of the deferred taxes. Also, in the later year, the income may be converted into a long-term capital gain which is taxed at a lower rate.

Because sources of income that are not identifiable from tax return data are excluded, all income measures used in this report understate economic income. As a consequence, some individuals with high economic income will be omitted completely from the high-income group in this report. Moreover, even for the individuals included, income will be understated and taxes as a percentage of income (that is, the effective tax rate) will be overstated.

Investment Expenses

In determining economic income, it would be appropriate to deduct all expenses incurred in the production of income, including those related to any income-producing investments. Since economic income would include investment income

7/ Social security benefits and unemployment compensation are also excluded. In the aggregate, this is a major omission, but it is relatively unimportant for high-income taxpayers.

currently and completely, it would be proper to deduct all investment expenses without limit. Investment expenses in excess of income would then represent a net economic loss, roughly akin to a net operating loss from a trade or business. However, such a liberal deduction for investment-related expenses is not necessarily correct when a less comprehensive income definition is used. In such a case, a full deduction for investment expenses might well represent a mismatching of receipts and expenses with the result that net income would be understated. For example, if a taxpayer borrowed funds to purchase securities, his net income would be understated if he deducted all of the interest paid on the loan but he did not include as income any accrued gains on the securities. In this instance, it might be appropriate to postpone the deduction of the interest expense until the time when the capital gains were realized. A similar mismatching could occur if other investment expenses that should properly be capitalized are deducted when they are paid.

The fungibility of money creates additional problems. If a person with a loan has both income-producing assets, such as securities, and non-income producing assets, such as a vacation home or yacht, it is not possible to determine what portion, if any, of the interest expense is attributable to the income-producing assets and, therefore, ought to be deducted in measuring income.

As a result of these problems as well as the limited data which are available on Federal income tax returns, it has been necessary to define arbitrary limits for the amount of investment expenses which may be deducted in calculating a broader measure of income.

Investment expenses appear on a Federal income tax return in two places. Investment interest appears as part of the itemized deduction for interest; other investment expenses such as payments for investment advice are included in the miscellaneous category of itemized deductions. For this report, investment interest is defined as the entire interest deduction other than interest paid on a home mortgage. Since other investment expenses could not be separated from the remainder of miscellaneous deductions, this report defines non-mortgage interest as the only investment expense. This procedure tends to overstate income.

To the extent that interest expenses do not exceed investment income, they are considered to be a legitimate deduction in the computation of broadly measured income. One consequence of this definition is that investment expenses can never turn a profitable investment into a losing investment. It is logical to limit the investment expense deduction in this way. A person would not normally make an investment where the expenses are expected to approach or exceed investment income. Thus, allowing investment expenses to offset all of investment income is overly generous and tends to understate broadly measured income. On the other hand, there may be cases of genuine investment losses, akin to trade or business losses, which are not allowed, thereby causing overstatements of income.

The amount of investment income against which investment interest can be offset depends on the amount of investment income included in the income measure under consideration. Investment income consists of interest, dividends, and net capital gains (or losses). However, if only a portion of capital gains are included in the income concept, as is the case with AGI, then only that portion is considered to be investment income.

Expanded Income

The Congress has asked for high-income data to be tabulated on the basis of a measure closely approximating economic income but using only data available on tax returns. This measure is called "expanded income."

Expanded income is defined as adjusted gross income plus items of tax preference less investment expenses to the extent that they do not exceed investment income. 8/ Tax preferences that are included are the \$100 per taxpayer exclusion for dividends of domestic corporations, the excluded half of net long-term capital gains, and, where the

8/ For the sake of brevity, "investment interest to the extent that it does not exceed investment" income is called "investment interest." "Investment interest in excess of investment income" is called "excess investment interest."

taxpayer has filed a minimum tax form with his tax return, all other preferences subject to the minimum tax except excess itemized deductions. For individuals, the only minimum tax items of significance other than excluded capital gains are the excess of accelerated depreciation over straight-line depreciation on real property and on personal property subject to a net lease, the excess of percentage depletion over the cost of the property, and deductions for intangible drilling costs in excess of the amount deductible if these costs had been amortized. Because expanded income is based on tax return data, it excludes items such as interest on tax-exempt state and local bonds, accrued but unrealized capital gains, and straight-line depreciation on real estate in excess of economic depreciation.

Four Income Measures

The Congress has mandated that high-income tax return data be selected and classified by four income measures. Expanded income and AGI have already been discussed. Each of the additional measures embodies only one of the two major conceptual differences between expanded income and AGI. "Adjusted gross income plus preferences" is calculated by increasing AGI by the amount of tax preference income. "Adjusted gross income less investment interest" is calculated by reducing AGI by the amount of investment interest to the extent that it does not exceed investment income.

When ranked according to size of income, AGI plus preferences is largest, AGI less investment interest is smallest, and AGI and expanded income fall in between. For any individual taxpayer, AGI can be larger or smaller than expanded income depending on whether preferences are larger or smaller than investment interest.

The four income concepts are related in the following manner 9/ :

Expanded Income

$$= \text{Adjusted Gross Income} + \text{Preferences} - \text{Investment Interest}$$

Adjusted Gross Income

$$= \text{Expanded Income} - \text{Preferences} + \text{Investment Interest}$$

Adjusted Gross Income plus Preferences

$$\begin{aligned} &= \text{Adjusted Gross Income} + \text{Preferences} \\ \text{or} \quad &= \text{Expanded Income} + \text{Investment Interest} \end{aligned}$$

Adjusted Gross Income minus Investment Interest

$$\begin{aligned} &= \text{Adjusted Gross Income} - \text{Investment Interest} \\ \text{or} \quad &= \text{Expanded Income} - \text{Preferences} \end{aligned}$$

Expanded income most closely approximates a measure of economic income. To the extent that the availability of data permit, the analyses in this report are based on expanded income.

9/ Note that the investment income limitation for defining excess and non-excess investment interest is dependent upon the income concept. Hence, the amount of the investment interest adjustment differs depending on which definition is used.

Chapter 4

High-Income Tax Returns

Compared to the total number of Federal individual income tax returns filed each year, the number of high-income tax returns is rather small. There were only 41,761 income tax returns with adjusted gross income (AGI) of \$200,000 or over in 1976; these returns represented only one-twentieth of one percent (0.05 percent) of the total of 84,700,000 income tax returns filed. Similarly, the number of tax returns with expanded income of \$200,000 or over was 53,587, or 0.06 percent of all returns filed. In recent years due to both inflation and to rising levels of real income, the number of high-income tax returns has increased dramatically in both absolute numbers and as a percentage of all tax returns filed. For example, in 1970 there were 15,223 income tax returns with AGI of \$200,000 or over, representing 0.02 percent of all tax returns filed in that year. In 1960, there were only 5,889 such returns, less than 0.01 percent of all returns. Thus, in 16 years, the number of high AGI returns increased seven-fold, and their share of all returns increased more than five-fold. 1/

Although high expanded income returns are only 0.06 percent of all returns filed, they contain 2.1 percent of all expanded income and pay 5.5 percent of all individual income tax liabilities. Similarly, although taxpayers with adjusted gross income of \$200,000 or more represent only 0.05 percent of all returns, they have 1.5 percent of AGI and pay 4.9 percent of taxes.

Out of this relatively small percentage of all returns filed in a given year, the number of these returns that are nontaxable is far smaller. For each year between 1966 and 1976, Table 1 shows the number of nontaxable returns with adjusted gross income of \$200,000 or more; it also shows the

1/ Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1960 and 1970.

Table 1

Number and Percentage of Nontaxable Income Tax Returns
With Income of \$200,000 or Over Under Alternative Concepts

Year	Returns Selected By									
	Expanded Income		Adjusted Gross Income		Adjusted Gross Income		Adjusted Gross Income		Adjusted Gross Income	
	Number	Percent of	Number	Percent of	Number	Percent of	Number	Percent of	Number	Percent of
	of	all Returns	of	all Returns	of	all Returns	of	all Returns	of	all Returns
	Returns	: Class	Returns	: Class	Returns	: Class	Returns	: Class	Returns	: Class
1966			154	1.26 %						
1967			167	1.07						
1968			222	1.15						
1969			300	1.62						
1970			111	0.73						
1971			82	0.45						
1972			108	0.47						
1973 1/	91	0.26 %	164	0.64						
1974 2/	167	0.39	244	0.78						
1975 3/	215	0.53	260	0.77						
1976 4/	89	0.17	68	0.16						
1976 retabu- lated 5/	53	0.10	22	0.05						
					355	0.78 %	89	0.27 %		
					362	0.84	126	0.40		
					114	0.20	42	0.11		
					41	0.07	21	0.05		

Office of the Secretary of the Treasury
Office of Tax Analysis

July 24, 1978

Source: Statistics of Income, except as noted.

1/ Expanded income number and percentage are from the 1973 Treasury tax model.

2/ For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.

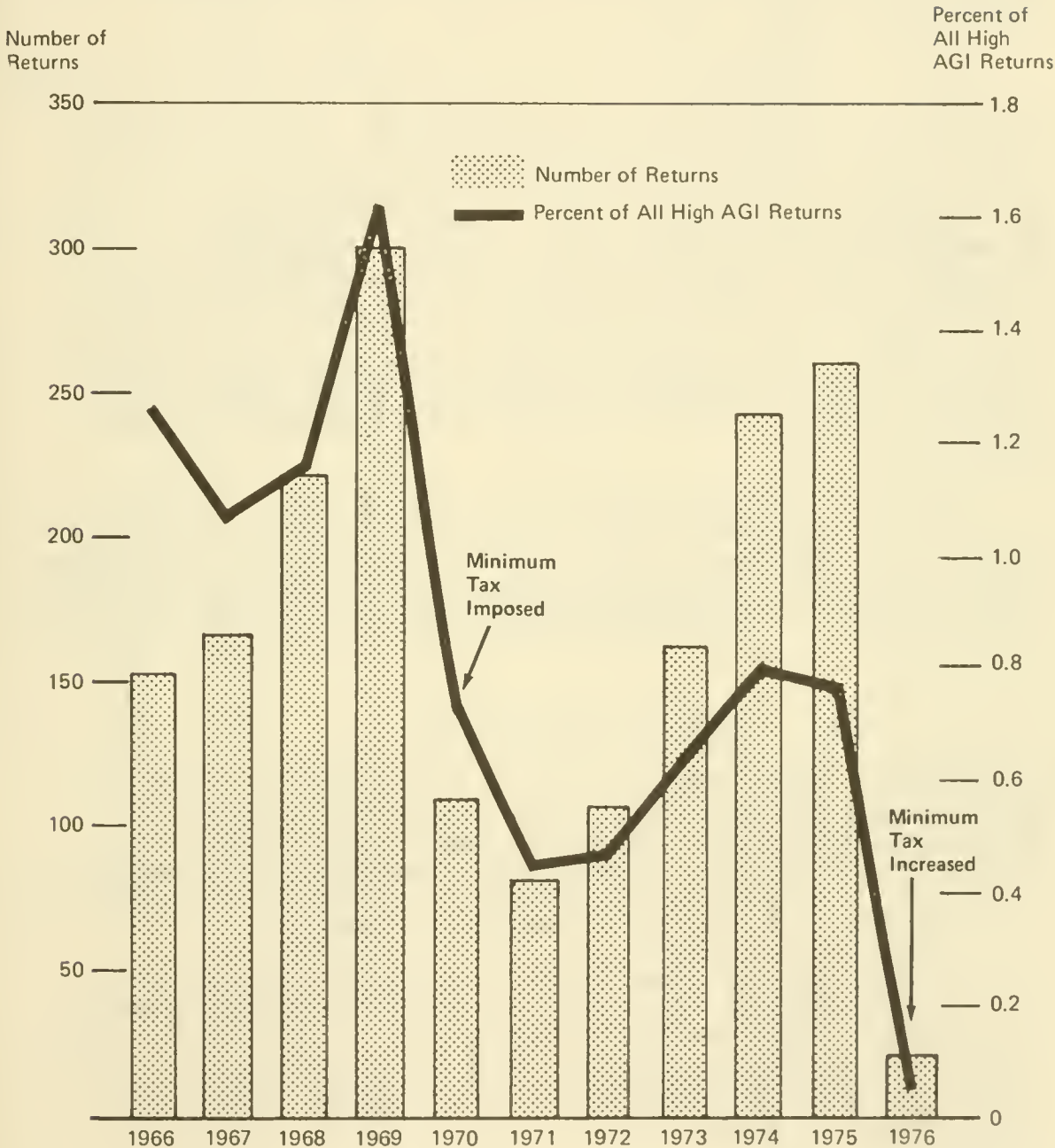
3/ Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.

4/ From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ both from the information contained in the previously released 1976 preliminary Statistics of Income and from the retabulated numbers of nontaxable returns in Chapter 6.

5/ See Chapter 6 for an explanation of reason for retabulation.

Chart 1
NUMBER AND PERCENTAGE OF NONTAXABLE
HIGH ADJUSTED GROSS INCOME RETURNS
1966 - 1976

(Adjusted Gross Incomes of \$200,000 and over)



number of nontaxable returns as a percentage of all returns in the income class. Similar data for years prior to 1966 are not available. For the years 1973 through 1976, Table 1 also presents the number of nontaxable returns as defined by expanded income, by adjusted gross income plus preferences, and by adjusted gross income less investment interest. Prior to 1973 these data were not available regularly and consistently. 2/

Chart 1 displays for each year between 1966 and 1976 the number of nontaxable high AGI returns and the percentage of all high AGI returns that are nontaxable. The percentage of high-income, nontaxable returns has increased over time except when the tax law has been tightened. The reason for this upward trend is not clear; however, it is possible that it represents a learning curve. That is, over time, taxpayers learn how to arrange their tax affairs so that within the constraints imposed by the Internal Revenue Code they minimize (or eliminate) their income taxes. Chart 1 also illustrates the sharp declines in nontaxables in 1970 as a result of the imposition of the minimum tax and again in 1976 as a result of the substantial strengthening of the minimum tax. 3/

Because of both inflation and rising real incomes, notions of what represents a truly high level of income have changed over the years. For this reason, as well as to give some idea of the differences which the income cutoff point makes, Tables 2, 3, and 4 show data similar to that contained

2/ The data for 1974, 1975 and 1976 are from the Internal Revenue Service, either from the complete Statistics of Income individual file of income tax returns or from a subsample of that file called the Internal Revenue Service tax model. The data for 1973 were developed by the Office of Tax Analysis from the 1973 Treasury tax model.

3/ The data show a sharp decline in 1970 in nontaxables, both absolutely and as a fraction of all high AGI taxpayers and then a further decline in 1971. It is likely that the full decline actually took place in 1970 but because of poor compliance with the minimum tax in its first year, the decline was not fully reflected in data from unaudited tax returns.

Table 2

Number and Percentage of Nontaxable Income Tax Returns With Income of \$100,000 or Over Under Alternative Concepts

[illegible]

Office of the Secretary of the Treasury
Office of Tax Analysis

Source: Statistics of Income, except as noted.

- 1/ Expanded income number and percentage are from the 1973 Treasury tax model.
- 2/ For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.
- 3/ Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.
- 4/ From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ from the information contained in the previously released 1976 Statistics of Income.

Table 3

Number and Percentage of Nontaxable Income Tax Returns
With Income of \$500,000 or Over Under Alternative Concepts

	Returns Selected By									
	Expanded Income			Adjusted Gross Income			Adjusted Gross Income			Adjusted Gross Income
			</							

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Source: Statistics of Income, except as noted.

1/ For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.

2/ Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.

3/ From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ both from the information contained in the previously released 1976 preliminary Statistics of Income and from the retabulated numbers of nontaxable returns in Chapter 6.

4/ See Chapter 6 for an explanation of reason for retabulation.

Table 4

Number and Percentage of Nontaxable Income Tax Returns
With Income of \$1,000,000 or Over Under Alternative Concepts

Year	Returns Selected By									
	Expanded Income		Adjusted Gross Income		Adjusted Gross Income plus Preferences		Adjusted Gross Income less Investment Interest		Adjusted Gross Income	
	Number of Returns	Percent of all Returns in Income Class	Number of Returns in Income Class	Percent of all Returns in Income Class	Number of Returns in Income Class	Percent of all Returns in Income Class	Number of Returns in Income Class	Percent of all Returns in Income Class	Number of Returns in Income Class	Percent of all Returns in Income Class
1964			19	3.94 %						
1965			22	3.40						
1966			18	2.80						
1967			23	2.75						
1968			31	2.76						
1969			52	4.29						
1970			3	0.47						
1971			3	0.34						
1972			6	0.58						
1973			7	0.78						
1974 ^{1/}	3	0.17 %	12	1.09	13	0.70 %	2	0.20 %		
1975 ^{2/}	8	0.44	12	1.07	17	0.88	3	0.29		
1976 ^{3/}	2	0.08	2	0.15	4	0.15	1	0.08		
1976 Retabu- lated ^{4/}			1	0.07						

Office of the Secretary of the Treasury
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Source: Statistics of Income, except as noted.

^{1/} For income concepts other than AGI, data are from the 1974 Internal Revenue Service tax model.

^{2/} Numbers of nontaxable returns for 1975 are from the 1975 Statistics of Income. Some numbers differ slightly from the 1975 data in the remainder of this report which are derived from the 1975 Internal Revenue Service tax model which is a subsample of the 1975 Statistics of Income data file.

^{3/} From the 1976 Statistics of Income. These data are derived from the final Statistics of Income data file and differ both from the information contained in the previously released 1976 preliminary Statistics of Income and from the retabulated numbers of nontaxable returns in Chapter 6.

^{4/} See Chapter 6 for an explanation of reason for retabulation.

in Table 1 for tax returns with income of \$100,000 or over, of \$500,000 or over, and \$1,000,000 or over, respectively. The columns showing nontaxable returns as a percentage of all returns in their income classes indicate that once the \$100,000 level of income is reached, there is no trend, either increasing or decreasing, in this percentage. One might well expect to find a lower proportion of nontaxable returns with income of \$500,000 to a \$1,000,000 than in the \$100,000 to \$200,000 class, but no such pattern is discernible.

Distribution of Effective Tax Rates: Nearly Nontaxables

The preceeding section outlining how a small number of high-income taxpayers are able to entirely escape taxes may give the picture of two very different and clearly distinguishable types of high-income returns: taxables and nontaxables. Such a picture would be misleading. Examination of the distribution of high-income taxpayers by either effective tax rate or by the ratio of their taxable incomes to their total incomes shows a continuum from nontaxable returns to returns with high effective tax rates.

Tables 5 through 8 for 1975 and 1976 show the distributions of taxes paid by high-income taxpayers. Tables 5 and 6 show the distribution of tax returns by effective income tax rates, i.e., tax as a percentage of the relevant measure of income. Tables 7 and 8 show the distributions of actual tax liabilities. On all four tables, the distributions are given for all tax returns, for various income classes, and under all four definitions of income. The tables also show the distributions in terms of the actual numbers of tax returns as well as percentages of all returns in the income class. Examination of Tables 5 and 6 for returns with income of \$200,000 or over indicates that regardless of the income concept used the majority of high-income taxpayers are concentrated in the 30 to 50 percent effective tax rate brackets. If one were to graph the percentage of taxpayers as a function of the effective tax rate, one would find a typical, bell-shaped curve familiar to statisticians and economists. This curve would peak in the 30 to 50 percent effective tax rate range and would fall off sharply with a small tail running down to zero percent for the nontaxables, and another small tail going out toward the maximum possible tax rate. The percentage of returns with low effective tax rates or very low actual

Table 5

Distribution of Tax Returns by Income Class and Effective Tax Rate -- 1976

Income Concept and Income Class	Total Number of Returns	Number and Percent with: No Tax	Number and Percent of Returns by Size of Effective Tax Rate 1/									
			All	: : : : : : : : : : : :								
				Under : 5%	5% to : 10%	10% to : 15%	15% to : 20%	20% to : 25%	25% to : 30%	30% to : 40%	40% to : 50%	50% and over
All Returns												
Expanded Income												
\$ 50,000 to \$100,000	1,003,851 (100.0%)	4,104 (0.4%)	999,747 (99.6%)	9,869 (1.0%)	24,078 (2.4%)	69,628 (6.9%)	141,452 (14.1%)	270,145 (26.9%)	287,498 (28.6%)	191,706 (19.1%)	5,259 (0.5%)	112 (*)
\$ 100,000 to \$200,000	204,278 (100.0%)	533 (0.3%)	203,745 (99.7%)	923 (0.4%)	3,899 (1.9%)	7,118 (3.5%)	12,313 (6.0%)	17,892 (8.8%)	31,384 (15.4%)	99,282 (48.6%)	29,708 (14.5%)	1,226 (0.6%)
\$ 200,000 and over	53,587 (100.0%)	89 (0.2%)	53,498 (99.8%)	204 (0.4%)	731 (1.4%)	2,486 (4.6%)	2,650 (5.0%)	4,261 (8.0%)	6,618 (12.4%)	17,598 (32.8%)	14,283 (26.6%)	4,667 (8.7%)
Adjusted Gross Income												
\$ 50,000 to \$100,000	948,034 (100.0%)	3,180 (0.3%)	944,854 (99.7%)	9,017 (1.0%)	15,081 (1.6%)	33,216 (3.5%)	106,911 (11.3%)	255,049 (26.9%)	291,562 (30.8%)	224,203 (23.6%)	9,080 (1.0%)	735 (0.1%)
\$ 100,000 to \$200,000	185,142 (100.0%)	492 (0.3%)	184,650 (99.7%)	1,047 (0.6%)	2,131 (1.2%)	2,460 (1.3%)	5,124 (2.8%)	8,588 (4.6%)	19,257 (10.4%)	102,433 (55.3%)	39,854 (21.5%)	3,756 (2.0%)
\$ 200,000 and over	41,761 (100.0%)	68 (0.2%)	41,693 (99.8%)	186 (0.4%)	365 (0.9%)	627 (1.5%)	878 (2.1%)	1,330 (3.2%)	1,909 (4.6%)	10,081 (24.1%)	16,056 (38.4%)	10,261 (24.6%)
Adjusted Gross Income plus Preferences												
\$ 50,000 to \$100,000	1,021,791 (100.0%)	4,480 (0.4%)	1,017,311 (99.6%)	11,722 (1.2%)	27,762 (2.7%)	77,700 (7.6%)	152,908 (15.0%)	283,691 (27.8%)	279,117 (27.3%)	179,180 (17.5%)	5,121 (0.5%)	110 (*)
\$ 100,000 to \$200,000	212,461 (100.0%)	700 (0.3%)	211,761 (99.7%)	1,708 (0.8%)	5,333 (2.5%)	8,007 (3.8%)	14,113 (6.6%)	20,492 (9.7%)	34,615 (16.3%)	99,135 (46.7%)	27,210 (12.8%)	1,148 (0.5%)
\$ 200,000 and over	56,512 (100.0%)	114 (0.2%)	56,398 (99.8%)	313 (0.6%)	1,345 (2.4%)	3,082 (5.4%)	3,059 (5.4%)	4,890 (8.7%)	7,182 (12.7%)	18,279 (32.4%)	13,928 (24.6%)	4,320 (7.6%)
Adjusted Gross Income less Investment Interest												
\$ 50,000 to \$100,000	925,833 (100.0%)	2,721 (0.3%)	923,112 (99.7%)	7,400 (0.8%)	12,126 (1.3%)	26,410 (2.8%)	91,419 (9.9%)	237,400 (25.6%)	295,971 (32.0%)	241,376 (26.1%)	10,096 (1.1%)	914 (0.1%)
\$ 100,000 to \$200,000	176,934 (100.0%)	435 (0.2%)	176,499 (99.8%)	667 (0.4%)	1,452 (0.8%)	1,827 (1.0%)	3,878 (2.2%)	6,618 (3.7%)	15,627 (8.8%)	9,811 (55.5%)	44,127 (24.9%)	4,192 (2.4%)
\$ 200,000 and over	39,346 (100.0%)	42 (0.1%)	39,304 (99.9%)	101 (0.3%)	154 (0.4%)	339 (0.9%)	612 (1.6%)	985 (2.5%)	1,603 (4.1%)	8,442 (21.5%)	16,015 (40.7%)	11,053 (28.1%)

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Source: 1976 Statistics of Income.

* Less than 0.05 percent.

1/ Income tax after credits including the minimum tax as a percentage of income.

Table 6

Distribution of Tax Returns by Income Class and Effective Tax Rate -- 1975

Income Concept and Income Class	Total Returns	Number and Percent with No Tax	Number and Percent of Returns by Size of Effective Tax Rate 1/									
			All Returns	Under : 5% to : 10% to : 15% to : 20% to : 25% to : 30% to : 40% to : 50% to : over								
				With Tax : 5% : 10% : 15% : 20% : 25% : 30% : 40% : 50% : over								
All Returns												
Expanded Income												
\$ 50,000 to \$100,000	807,399 (100.0%)	4,654 (0.6%)	802,745 (99.4%)	12,268 (1.5%)	27,282 (3.4%)	40,382 (5.0%)	101,777 (12.6%)	208,141 (25.8%)	239,117 (29.6%)	168,492 (20.9%)	5,286 (0.6%)	0 (0)
\$ 100,000 to \$200,000	165,269 (100.0%)	686 (0.4%)	164,583 (99.6%)	2,004 (1.2%)	3,989 (2.4%)	6,973 (4.2%)	8,775 (5.3%)	13,320 (8.1%)	21,895 (13.3%)	78,782 (47.7%)	27,628 (16.7%)	1,217 (0.7%)
\$ 200,000 and over	40,884 (100.0%)	215 (0.5%)	40,669 (99.5%)	585 (1.4%)	1,462 (3.6%)	1,500 (3.7%)	2,294 (5.6%)	3,443 (8.4%)	4,282 (10.5%)	10,687 (26.1%)	11,908 (29.1%)	4,508 (11.0%)
Adjusted Gross Income												
\$ 50,000 to \$100,000	780,470 (100.0%)	4,749 (0.6%)	775,721 (99.4%)	7,704 (1.0%)	12,720 (1.6%)	25,741 (3.3%)	85,700 (11.0%)	207,298 (26.6%)	244,755 (31.4%)	185,441 (23.8%)	6,315 (0.8%)	47 (*)
\$ 100,000 to \$200,000	152,432 (100.0%)	709 (0.5%)	151,723 (99.5%)	1,491 (1.0%)	1,942 (1.3%)	2,643 (1.7%)	4,221 (2.8%)	7,619 (5.0%)	16,982 (11.1%)	83,071 (54.5%)	32,118 (21.1%)	1,636 (1.1%)
\$ 200,000 and over	33,606 (100.0%)	260 (0.8%)	33,346 (99.2%)	504 (1.5%)	456 (1.4%)	523 (1.6%)	759 (2.3%)	1,083 (3.2%)	1,596 (4.8%)	7,654 (22.8%)	13,307 (39.6%)	7,464 (22.2%)
Adjusted Gross Income plus Preferences												
\$ 50,000 to \$100,000	821,253 (100.0%)	6,607 (0.8%)	814,646 (99.2%)	14,402 (1.8%)	29,500 (3.6%)	44,977 (5.5%)	111,547 (13.6%)	218,528 (26.6%)	233,888 (28.5%)	156,956 (19.1%)	4,848 (0.6%)	0 (0)
\$ 100,000 to \$200,000	173,888 (100.0%)	1,423 (0.8%)	172,465 (99.2%)	3,814 (2.2%)	4,639 (2.7%)	7,780 (4.5%)	10,339 (6.0%)	15,353 (8.8%)	24,274 (13.9%)	79,921 (46.0%)	25,228 (14.5%)	1,117 (0.6%)
\$ 200,000 and over	43,344 (100.0%)	362 (0.8%)	42,982 (99.2%)	1,245 (2.9%)	1,701 (3.9%)	1,738 (4.0%)	2,600 (6.0%)	3,824 (8.8%)	4,725 (10.9%)	11,330 (26.1%)	11,636 (26.9%)	4,183 (9.7%)
Adjusted Gross Income less Investment Interest												
\$ 50,000 to \$100,000	762,709 (100.0%)	3,879 (0.5%)	758,830 (99.5%)	5,676 (0.7%)	9,714 (1.3%)	21,720 (2.8%)	75,264 (9.9%)	191,648 (25.1%)	246,466 (32.3%)	201,506 (26.4%)	6,752 (0.9%)	84 (*)
\$ 100,000 to \$200,000	145,330 (100.0%)	407 (0.3%)	144,923 (99.7%)	908 (0.6%)	1,266 (0.9%)	1,835 (1.3%)	3,240 (2.2%)	5,868 (4.0%)	13,958 (9.6%)	80,303 (55.3%)	35,670 (24.5%)	1,875 (1.3%)
\$ 200,000 and over	31,391 (100.0%)	126 (0.4%)	31,265 (99.6%)	230 (0.7%)	239 (0.8%)	305 (1.0%)	562 (1.8%)	800 (2.6%)	1,230 (3.9%)	6,575 (21.0%)	13,296 (42.4%)	8,028 (25.6%)

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Source: 1975 Internal Revenue Service tax model

* Less than 0.05 percent.

^{1/} Income tax after credits including the minimum tax as a percentage of income.

Table 7

Distribution of Tax Returns by Income Class and Total Income Tax -- 1976

Income Concept and Income Class	Total Number of Returns	Number and Percent with: No Tax	Number and Percent of Returns by Size of Total Income Tax 1/									
			With Tax	\$1,000 : under	\$1,000 : under	\$3,000 : under	\$4,000 : under	\$5,000 : under	\$10,000 : under	\$25,000 : under	\$50,000 : under	\$50,000 : or more
All Returns	84,670,389	20,249,022	64,421,367	26,964,491	25,732,027	4,706,219	2,385,683	3,251,747	1,032,333	246,323	102,544	
Expanded Income												
\$ 50,000 to \$100,000	1,003,851 (100.0%)	4,104 (0.4%)	999,747 (99.6%)	2,087 (0.2%)	6,555 (0.7%)	7,245 (0.7%)	6,402 (0.6%)	124,343 (12.4%)	735,558 (73.3%)	117,446 (11.7%)	111 *	
\$100,000 to \$200,000	204,278 (100.0%)	533 (0.3%)	203,745 (99.7%)	147 (0.1%)	164 (0.1%)	168 (0.1%)	139 (0.1%)	2,054 (1.0%)	22,538 (11.0%)	125,020 (61.2%)	53,515 (26.2%)	
\$200,000 and over	53,587 (100.0%)	89 (0.2%)	53,498 (99.8%)	13 *	19 *	1 *	34 (0.1%)	81 (0.2%)	632 (1.2%)	3,813 (7.1%)	48,905 (91.3%)	
Adjusted Gross Income												
\$ 50,000 to \$100,000	948,034 (100.0%)	3,180 (0.3%)	944,854 (99.7%)	2,051 (0.2%)	5,727 (0.6%)	4,743 (0.5%)	4,175 (0.4%)	79,505 (8.4%)	714,412 (75.4%)	133,922 (14.1%)	319 *	
\$100,000 to \$200,000	185,142 (100.0%)	492 (0.3%)	184,650 (99.7%)	129 (0.1%)	210 (0.1%)	91 (0.1%)	238 (0.1%)	1,466 (0.8%)	9,856 (5.3%)	110,605 (59.7%)	62,055 (33.5%)	
\$200,000 and over	41,761 (100.0%)	68 (0.2%)	41,693 (99.8%)	12 *	15 *	1 *	16 *	58 (0.1%)	331 (0.8%)	1,278 (3.1%)	39,982 (95.7%)	
Adjusted Gross Income plus Preferences												
\$ 50,000 to \$100,000	1,021,791 (100.0%)	4,480 (0.4%)	1,017,311 (99.6%)	2,622 (0.3%)	7,778 (0.8%)	8,249 (0.8%)	6,940 (0.7%)	136,202 (13.3%)	742,953 (72.7%)	112,457 (11.0%)	110 *	
\$100,000 to \$200,000	212,461 (100.0%)	700 (0.3%)	211,761 (99.7%)	150 (0.1%)	230 (0.1%)	366 (0.2%)	413 (0.2%)	2,893 (1.4%)	26,593 (12.5%)	129,054 (60.7%)	52,062 (24.5%)	
\$200,000 and over	56,512 (100.0%)	114 (0.2%)	56,398 (99.8%)	13 *	21 *	12 *	39 (0.1%)	105 (0.2%)	1,079 (1.9%)	4,770 (8.4%)	50,359 (89.1%)	
Adjusted Gross Income less Investment Interest												
\$ 50,000 to \$100,000	925,833 (100.0%)	2,721 (0.3%)	923,112 (99.7%)	1,722 (0.2%)	4,913 (0.5%)	4,124 (0.4%)	3,254 (0.4%)	66,251 (7.2%)	701,494 (75.8%)	140,970 (15.2%)	384 *	
\$100,000 to \$200,000	176,934 (100.0%)	435 (0.2%)	176,499 (99.8%)	109 (0.1%)	135 (0.1%)	47 *	143 (0.1%)	966 (0.6%)	7,505 (4.2%)	103,953 (58.8%)	63,641 (36.0%)	
\$200,000 and over	39,346 (100.0%)	42 (0.1%)	39,304 (99.9%)	11 *	14 *	1 *	11 *	28 (0.1%)	163 (0.4%)	795 (2.0%)	38,281 (97.3%)	

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Office of Tax Analysis

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Source: 1976 Statistics of Income.

* Less than 0.05 percent.

1/ Total income tax is income tax after credits including the minimum tax. It is impossible for tax after credits including the minimum tax to exceed income.

Table 8

Distribution of Tax Returns by Income Class and Total Income Tax -- 1975

Income Concept and Income Class	: Total : Number of : Returns	: Number and : Percent with : No Tax	: All Returns : With Tax	Number and Percent of Returns by Size of Total Income										Tax 1/ under : \$50,000 : or more		
				: \$1 : under : \$1,000	: \$1,000 : under : \$3,000	: \$3,000 : under : \$4,000	: \$4,000 : under : \$5,000	: \$5,000 : under : \$10,000	: \$10,000 : under : \$25,000	: \$25,000 : under : \$50,000	: \$50,000 : under : \$75,000	: \$75,000 : under : \$100,000	: \$100,000 : under : \$125,000	: \$125,000 : under : \$150,000	: \$150,000 : under : \$200,000	: \$200,000 : under : \$250,000
All Returns	82,229,182	20,822,251	261,406,931	6,357,938	25,353,480	4,026,297	1,982,979	2,597,263	803,402	204,794	80,778					
Expanded Income																
\$ 50,000 to \$100,000	807,399 (100.0%)	4,654 (0.6%)	802,745 (99.4%)	5,516 (0.7%)	6,120 (0.8%)	6,300 (0.8%)	7,553 (0.9%)	87,691 (10.9%)	585,273 (72.5%)	104,292 (12.9%)	0					
\$100,000 to \$200,000	165,269 (100.0%)	686 (0.4%)	164,583 (99.6%)	350 (0.2%)	381 (0.2%)	256 (0.2%)	288 (0.2%)	2,928 (1.8%)	18,310 (11.1%)	97,321 (58.9%)	44,749 (27.1%)					
\$200,000 and over	40,884 (100.0%)	215 (0.5%)	40,669 (99.5%)	55 (0.1%)	49 (0.1%)	18 *	14 *	217 (0.5%)	1,118 (2.7%)	3,174 (7.8%)	36,024 (88.1%)					
Adjusted Gross Income																
\$ 50,000 to \$100,000	780,470 (100.0%)	4,749 (0.6%)	775,721 (99.4%)	2,812 (0.4%)	4,519 (0.6%)	3,370 (0.4%)	4,227 (0.5%)	61,347 (7.9%)	586,923 (75.2%)	112,502 (14.4%)	21 *					
\$100,000 to \$200,000	152,432 (100.0%)	709 (0.5%)	151,723 (99.5%)	250 (0.2%)	349 (0.2%)	265 (0.2%)	266 (0.2%)	1,472 (1.0%)	8,808 (5.8%)	91,033 (59.7%)	49,280 (32.3%)					
\$200,000 and over	33,606 (100.0%)	260 (0.8%)	33,346 (99.2%)	55 (0.2%)	77 (0.2%)	28 (0.1%)	18 (0.0%)	149 (0.4%)	475 (1.4%)	1,131 (3.4%)	31,413 (93.5%)					
Adjusted Gross Income plus Preferences																
\$ 50,000 to \$100,000	821,253 (100.0%)	6,607 (0.8%)	814,646 (99.2%)	5,855 (0.7%)	7,801 (1.0%)	6,465 (0.8%)	8,646 (1.0%)	95,306 (11.6%)	590,800 (71.9%)	99,773 (12.2%)	0					
\$100,000 to \$200,000	173,888 (100.0%)	1,423 (0.8%)	172,465 (99.2%)	773 (0.4%)	915 (0.5%)	607 (0.4%)	340 (0.2%)	3,583 (2.1%)	21,203 (12.2%)	101,378 (58.3%)	43,666 (25.1%)					
\$200,000 and over	43,344 (100.0%)	362 (0.8%)	42,982 (99.2%)	93 (0.2%)	102 (0.2%)	73 (0.2%)	38 (0.1%)	428 (1.0%)	1,505 (3.5%)	3,636 (8.4%)	37,107 (85.6%)					
Adjusted Gross Income less Investment Interest																
\$ 50,000 to \$100,000	762,709 (100.0%)	3,879 (0.5%)	758,830 (99.5%)	2,028 (0.3%)	3,355 (0.4%)	2,647 (0.4%)	3,508 (0.5%)	53,446 (7.0%)	576,077 (75.5%)	117,736 (15.4%)	33 *					
\$100,000 to \$200,000	145,330 (100.0%)	407 (0.3%)	144,923 (99.7%)	172 (0.1%)	228 (0.2%)	159 (0.1%)	194 (0.1%)	930 (0.6%)	6,527 (4.5%)	86,161 (59.3%)	50,552 (34.8%)					
\$200,000 and over	31,391 (100.0%)	126 (0.4%)	31,265 (99.6%)	27 (0.1%)	22 (0.1%)	11 *	6 *	81 (0.3%)	257 (0.8%)	749 (2.4%)	30,112 (95.9%)					

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Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

1/ Total income tax is income tax after credits including the minimum tax. It is possible for tax after credits including the minimum tax to exceed income.

liabilities is very small. In 1976, as Table 7 shows, only 1.6 percent of all high expanded income taxpayers paid less than \$25,000 of tax, and over 90 percent paid more than \$50,000.

Tables 9 and 10 classify data by the ratio of taxable income to each of the four definitions of income for high-income returns. Table 9 is for 1976; Table 10 is for 1975. For various classes of ratios of taxable income to total income, the tables show the number of returns in the class; the percentage of the total number of returns which are in that class; and the cumulative percentage of the total in that class. For example, Table 9 shows that 0.90 percent of all returns with expanded income of \$200,000 or over had a ratio of taxable income to expanded income of less than 20 percent.

Table 11 presents in one place the cumulative percentages for 1974, 1975, and 1976. Chart 2 displays the comparison between the cumulative percentages of high expanded income returns for 1975 and 1976 with ratios of taxable income to expanded income of less than a given percentage. Tables 5, 6, 9, 10, and 11 and Chart 2 show very clearly that there is a whole continuum of returns when returns are classified either by effective tax rate or by the ratio of taxable income to total income. It is an oversimplification to try to group returns into just the two categories of taxable or nontaxable.

The data just presented have been used to help define a class of taxpayers who pay some taxes -- and, hence, have not been brought to the public's eye because of their nontaxable status -- but who clearly are not paying their "fair share" of taxes. This group, which may be called the "nearly nontaxables," consists of the small tail of tax returns at the low end of the cumulative distribution of tax returns arrayed by the ratio of taxable income to total income. Chart 2 shows that based on 1976 data, there clearly is a break in the continuum of tax returns when the ratio of taxable income to total income rises above 20 percent. Thus, nearly nontaxable returns are defined as taxable returns having taxable income of less than 20 percent of the relevant income measure. All high-income tax returns fall into one of three categories: nontaxables; nearly nontaxables; or all other taxables.

A substantial portion of the analysis throughout the rest of this report will focus on the differences and similarities between nontaxables and nearly nontaxables. Are

Table 9

Number and Distribution of Tax Returns with Income of \$200,000 or Over
Under Alternative Concepts, Classified by Taxpaying Status -- 1976

	:Percentage:Cumulative::			:Percentage:Cumulative::		
	: Number of :	of :	:Percentage::	: Number of :	of :	:Percentage::
	: Returns :	Total :	of Total :	: Returns :	Total :	of Total :
	-----Expanded Income-----			-----Adjusted Gross Income-----		
All Returns	53,587	100	%	41,761	100	%
Nontaxable Returns	89	0.17	0.17	68	0.16	0.16
Taxable Returns with Ratios of Taxable Income to Income: <u>1/</u>						
Under 10%	85	0.16	0.32	87	0.21	0.37
10% to 15%	136	0.25	0.58	105	0.25	0.62
15% to 20%	172	0.32	0.90	219	0.52	1.15
20% to 25%	979	1.83	2.73	229	0.55	1.70
25% to 30%	1,523	2.84	5.57	358	0.86	2.55
30% to 40%	3,462	6.46	12.03	1,095	2.62	5.17
40% to 50%	5,914	11.04	23.07	1,760	4.21	9.39
50% and over	41,227	76.93	100	37,840	90.61	100
	----Adjusted Gross Income plus----			----Adjusted Gross Income less----		
	Preference			Investment Interest		
All Returns	56,512	100	%	39,346	100	%
Nontaxable Returns	114	0.20	0.20	42	0.11	0.11
Taxable Returns with Ratios of Taxable Income to Income: <u>1/</u>						
Under 10%	121	0.21	0.42	61	0.16	0.26
10% to 15%	255	0.45	0.87	41	0.10	0.37
15% to 20%	543	0.96	1.83	76	0.19	0.56
20% to 25%	1,299	2.30	4.13	130	0.33	0.89
25% to 30%	1,780	3.15	7.28	212	0.54	1.43
30% to 40%	4,029	7.13	14.41	738	1.88	3.30
40% to 50%	6,591	11.66	26.07	1,321	3.36	6.66
50% and over	41,780	73.93	100	36,723	93.34	100

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Source: 1976 Statistics of Income.

1/ Taxable income is defined as the amount of income which under the appropriate ordinary tax rate schedules would yield tax after credits plus the minimum tax.

Table 10

Number and Distribution of Tax Returns with Income of \$200,000 or Over
Under Alternative Concepts, Classified by Taxpaying Status -- 1975

	:Percentage:Cumulative::			:Percentage:Cumulative		
	: Number of :	of :	:Percentage::	: Number of :	of :	:Percentage
	: Returns :	Total :	of Total ::	Returns :	Total :	of Total
	-----Expanded Income-----			-----Adjusted Gross Income-----		
All Returns	40,884	100 %		33,606	100 %	
Nontaxable Returns	215	0.53	0.53%	260	0.77	0.77%
Taxable Returns with Ratios of Taxable Income to Income: <u>1</u> /						
Under 10%	286	0.70	1.23	332	0.99	1.76
10% to 15%	336	0.82	2.05	185	0.55	2.31
15% to 20%	787	1.92	3.97	215	0.64	2.95
20% to 25%	946	2.31	6.29	285	0.85	3.80
25% to 30%	876	2.14	8.43	352	1.05	4.85
30% to 40%	2,643	6.46	14.89	670	2.59	7.44
40% to 50%	5,026	12.29	27.19	1,347	4.01	11.44
50% and over	29,769	72.81	100	29,760	88.56	100
	----Adjusted Gross Income plus----			----Adjusted Gross Income less----		
	Preferences			Investment Interest		
All Returns	43,344	100 %		31,391	100 %	
Nontaxable Returns	362	0.84	0.84%	126	0.40	0.40%
Taxable Returns with Ratios of Taxable Income to Income: <u>1</u> /						
Under 10%	615	1.42	2.25	150	0.48	0.88
10% to 15%	735	1.70	3.95	82	0.26	1.14
15% to 20%	907	2.09	6.04	113	0.36	1.50
20% to 25%	1,029	2.37	8.42	149	0.47	1.98
25% to 30%	1,077	2.47	10.89	201	0.64	2.62
30% to 40%	3,019	6.97	17.85	653	2.08	4.70
40% to 50%	5,356	12.36	30.21	1,041	3.32	8.01
50% and over	30,249	69.79	100	28,876	91.99	100

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Source: 1975 Internal Revenue Service tax model.

1/ Taxable income is defined as the amount of income which under the appropriate ordinary tax rate schedules would yield tax after credits plus the minimum tax.

Table 11

Comparison Between Cumulative Percentages of Tax Returns Classified by Tax-Paying Status
With Income of \$200,000 and Over Under Alternative Concepts -- 1974-1976

	::	:	:	::	:	:
	::	1974	:	1975	:	1976
	-----Expanded Income-----			-----Adjusted Gross Income-----		
Returns with ratios of Taxable Income to Income: <u>1/</u>						
Zero (Nontaxable returns)	0.39 %	0.53 %	0.17 %	0.68 %	0.77 %	0.16 %
Less than 10%	1.16	1.23	0.32	1.95	1.76	0.37
Less than 15%	1.73	2.05	0.58	2.52	2.31	0.62
Less than 20%	3.38	3.97	0.90	3.17	2.95	1.15
Less than 25%	5.54	6.29	2.73	3.86	3.80	1.70
Less than 30%	7.75	8.43	5.57	4.85	4.85	2.55
Less than 40%	14.94	14.89	12.03	7.70	7.44	5.17
Less than 50%	27.79	27.19	23.07	11.78	11.44	9.39
All Returns	100	100	100	100	100	100
	----Adjusted Gross Income plus----			----Adjusted Gross Income less----		
	Preference			Investment Interest		
Returns with ratios of Taxable Income to Income: <u>1/</u>						
Zero (Nontaxable returns)	0.78	0.84	0.20	0.27	0.40	0.11
Less than 10%	2.55	2.25	0.42	0.80	0.88	0.26
Less than 15%	3.69	3.95	0.87	1.00	1.14	0.37
Less than 20%	5.78	6.04	1.83	1.37	1.50	0.56
Less than 25%	8.27	8.42	4.13	1.68	1.98	0.89
Less than 30%	10.40	10.89	7.28	2.21	2.62	1.43
Less than 40%	18.60	17.85	14.41	4.29	4.70	3.30
Less than 50%	31.53	30.21	26.07	7.52	8.01	6.66
All Returns	100	100	100	100	100	100

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Source: 1976 Statistics of Income, 1975 Internal Revenue Service tax model, and 1974 Internal Revenue Service tax model.

1/ Taxable income is defined as the amount of income which under the appropriate ordinary tax rate schedules would yield tax after credits plus the minimum tax.

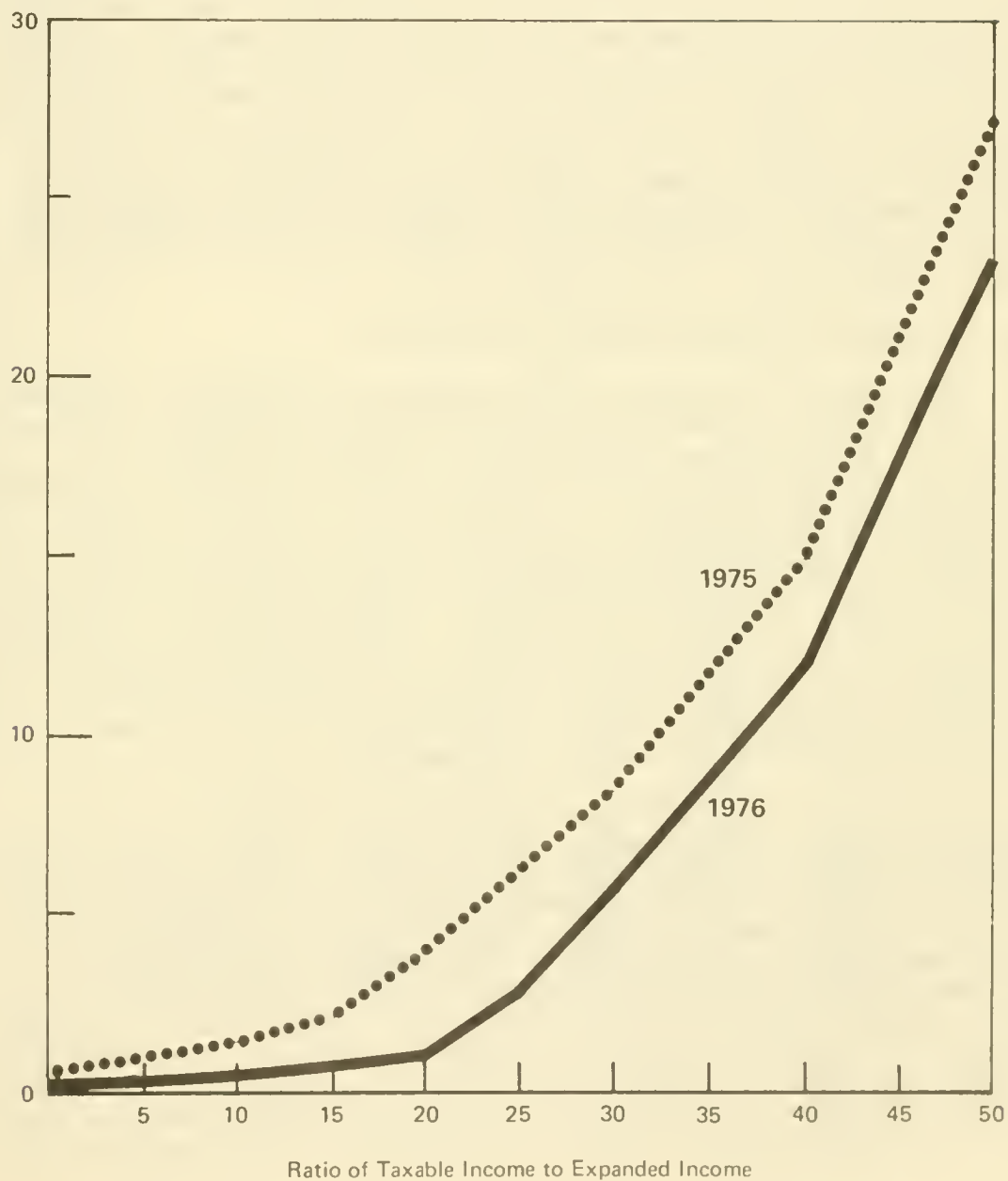
Chart 2

**PERCENTAGES OF TAX RETURNS BY RATIO
OF TAXABLE INCOME TO EXPANDED INCOME**

1975 and 1976

(Expanded Incomes of \$200,000 and over)

Percentage of
Returns



nearly nontaxables similar to nontaxables, similar to all other taxables, or a breed unto themselves?

A Note on Taxable Income

It should be pointed out that in Tables 10 and 11 as well as in all other tables in this report in which the ratio of taxable income to total income is used, taxable income has been modified to take into account the value of tax credits, the minimum tax, and special tax computations such as income averaging, the alternative tax on long term capital gains, and the maximum tax on earned income. If taxable income as ordinarily defined had been used, a taxpayer who had a substantial taxable income but paid very little tax would not have been included among the nearly nontaxables. Thus, taxable income has been redefined as that amount of income which, taxed at ordinary rates, would yield the amount of tax actually shown for the particular return after credits and after imposition of the minimum tax.

An Overview of High Income Tax Returns

For each of the four income concepts (expanded income, AGI, AGI plus preferences, and AGI less investment interest), Tables 12 and 13 show the relative sizes of income as measured by the four income concepts on the basis of expanded income being 100 percent. Table 12 is for 1976; Table 13 is for 1975. A examination of these tables indicates some significant differences between nontaxable and other returns when measured by expanded income. Both investment interest and preferences are relatively more important on nontaxable and nearly nontaxable returns than on other taxable returns. Of course, these are two of the most important items in reducing taxable income under present law, thereby making the returns nontaxable or nearly nontaxable.

The first 8 tables in each of Appendices A, B, and C contain data on preferences, deductions, credits, and taxes. Appendix A is for 1976; Appendix B is for 1975; and Appendix C is for 1974. In each appendix, there are two tables for each income definition. One table contains aggregate data; the other shows each item as a percentage of the income concept used to select the returns shown in the table. Each table contains four separate columns of data: all returns; nontaxable returns; nearly nontaxable returns; and all other taxable returns. These 24 tables include much of the data on which this report is based. Appendices A and B each contain two additional tables that cross-classify the numbers of tax

Table 12

Relationships Between Four Income Concepts for Tax Returns with Income
of \$200,000 or Over Under Alternative Income Concepts -- 1976

	Returns Selected by			
	Expanded	Adjusted Gross	Adjusted Gross	Adjusted Gross
	Income	Income	Income plus	Income less
			Preferences	Investment Interest
-----All Returns-----				
EXPANDED INCOME	100 %	100 %	100 %	100 %
Investment interest not in excess of				
Investment income	2.3	2.8	2.9	2.1
Preferences	24.0	19.6	24.0	19.5
ADJUSTED GROSS INCOME	78.4	83.2	79.0	82.6
ADJUSTED GROSS INCOME PLUS PREFERENCES	102.3	102.8	102.9	102.1
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	76.0	80.4	76.1	80.6
-----Nontaxable Returns-----				
EXPANDED INCOME	100	100	100	100
Investment interest not in excess of				
Investment income	10.7	51.1	28.2	14.0
Preferences	53.6	12.3	52.4	6.0
ADJUSTED GROSS INCOME	67.2	141.1	85.3	109.1
ADJUSTED GROSS INCOME PLUS PREFERENCES	110.7	153.4	128.2	115.1
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	47.2	90.0	48.8	95.1
-----Nearly Nontaxable Returns-----				
EXPANDED INCOME	100	100	100	100
Investment interest not in excess of				
Investment income	7.5	43.0	31.0	6.8
Preferences	38.7	10.0	41.7	4.6
ADJUSTED GROSS INCOME	71.5	134.4	90.9	102.6
ADJUSTED GROSS INCOME PLUS PREFERENCES	107.5	144.3	131.0	107.2
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	61.4	91.4	59.3	95.8
-----All Other Taxable Returns-----				
EXPANDED INCOME	100	100	100	100
Investment interest not in excess of				
Investment income	2.2	2.4	2.3	2.0
Preferences	23.8	19.7	23.6	19.6
ADJUSTED GROSS INCOME	78.5	82.7	78.8	82.5
ADJUSTED GROSS INCOME PLUS PREFERENCES	102.2	102.4	102.3	102.1
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	76.2	80.3	76.4	80.5

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Source: 1976 Statistics of Income

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Table 13

Relationships Between Four Income Concepts for Tax Returns with Income
of \$200,000 or Over Under Alternative Income Concepts -- 1975

	Returns		Selected by	
	Expanded : Income :	Adjusted Gross : Income :	Adjusted Gross : Income plus : Preferences :	Adjusted Gross : Income less : Investment Interest :
-----All Returns-----				
EXPANDED INCOME	100 %	100 %	100 %	100 %
Investment interest not in excess of investment income	2.8	3.6	3.7	2.4
Preferences	22.0	17.9	21.9	17.5
ADJUSTED GROSS INCOME	81.0	85.8	81.9	84.9
ADJUSTED GROSS INCOME PLUS PREFERENCES	102.8	103.7	103.7	102.4
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	78.1	82.2	78.2	82.5
-----Nontaxable Returns-----				
EXPANDED INCOME	100	100	100	100
Investment interest not in excess of investment income	20.7	86.7	65.1	27.0
Preferences	46.0	10.9	43.8	8.5
ADJUSTED GROSS INCOME	83.5	177.9	128.7	119.3
ADJUSTED GROSS INCOME PLUS PREFERENCES	120.7	188.8	165.1	127.8
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	54.6	91.2	57.7	92.4
-----Nearly Nontaxable Returns-----				
EXPANDED INCOME	100	100	100	100
Investment interest not in excess of investment income	15.1	43.6	23.3	18.6
Preferences	57.5	26.5	56.1	19.1
ADJUSTED GROSS INCOME	58.5	119.4	67.9	101.7
ADJUSTED GROSS INCOME PLUS PREFERENCES	115.1	146.0	123.3	120.7
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	43.2	75.8	44.7	83.0
-----All Other Nontaxable Returns-----				
EXPANDED INCOME	100	100	100	100
Investment interest not in excess of investment income	2.0	2.3	2.1	2.0
Preferences	20.0	17.7	19.7	17.5
ADJUSTED GROSS INCOME	82.1	84.6	82.5	84.5
ADJUSTED GROSS INCOME PLUS PREFERENCES	102.0	102.4	102.1	102.1
ADJUSTED GROSS INCOME LESS INVESTMENT INTEREST	80.0	82.3	80.4	82.5

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Source: 1975 Internal Revenue Service tax model.

returns by income classes under each combination of the four income definitions. One table is for all returns; the other is for nontaxable returns. Using these tables, one can determine, for example, how many of the high expanded income nontaxables are also high AGI nontaxables.

Analysis of Tables 76-2, 76-4, 75-2, and 75-4 in the appendices shows the basic similarity between nontaxables and nearly nontaxables and their differences from all other taxables in 1975 and 1976. These similarities and differences will be discussed in detail in Chapter 5. In most cases where there is a substantial difference between nontaxables and all other taxables, the nontaxables show essentially the same characteristics as the nearly nontaxables. When defined by expanded income, nontaxables and nearly nontaxables have large shares of their income in the form of preferences, but when defined by AGI, they both have smaller shares. To some degree, this is expected since preferences are fully included in expanded income whereas they are excluded from AGI. Thus, it is more difficult to become a high AGI return on the basis of preference items alone.

It should be pointed out that if a return did have large amounts of preference income and no ordinary tax liability, it would be subject to the minimum tax and, therefore, would no longer be nontaxable. As already noted, in both 1975 and 1976, high expanded income nontaxables had a large share of their income in the form of tax preferences. With such large tax preferences, and no ordinary tax liability, how did these returns escape the minimum tax? It is probable that the minimum tax was avoided as a result of the "no tax benefit rule" which provides that if the preference income does not reduce ordinary taxes then it is not subject to the minimum tax. Table 76-2 in Appendix A and Table 75-2 in Appendix B show that, especially in 1976, these returns had more itemized deductions than they needed to reduce AGI to zero. Thus, in many cases including additional preference income in AGI would not have increased tax liabilities. Also, as explained in detail in Chapter 6, it is likely that in 1976 many of these returns were subject to the minimum tax but failed to report their liabilities on their tax returns.

Despite the publicity given to high-income, nontaxable returns, most taxpayers with income of \$200,000 or more (however that income is measured) pay substantial Federal income taxes. It has already been mentioned that in 1976 over 90 percent of all high expanded income taxpayers had

liabilities of at least \$50,000. Tables 14 and 15 summarize the tax status of high-income taxpayers in 1975 and 1976. For the four income measures, the tables show the average income, tax, and effective tax rate for all returns, nontaxables, nearly nontaxables, and all other taxables. In 1976, the average tax for all high expanded income returns was \$145,000 or 35 percent of expanded income. This represented an increase over 1975 of \$20,000 per return, or 5 percentage points in the effective tax rate. The average tax rate for the nearly nontaxables is only about one fifth of the rate for the all other taxables; their effective tax rate is much closer to that of the nontaxables than to that of the all other taxables.

Average income for the nontaxables was about 10 percent lower than for the group as a whole. Average income for the nearly nontaxables was about one and one-half times that of the whole group. There does not appear to be a simple explanation for the higher average income of the nearly nontaxable group.

Summary

Although there are some differences between nontaxables and nearly nontaxable, these differences are relatively small compared with the major difference between these two groups on the one hand and all other taxables on the other hand. The similarities between the two groups and their differences from other taxables can best be seen by examining the importance of several items shown in the appendix tables: tax preferences; investment interest; charitable contributions; miscellaneous deductions; casualty losses; and the foreign tax credit.

The similarity of nearly nontaxable high-income returns to nontaxable high-income returns indicates that the characteristics of nontaxable returns are not unique. They only represent extreme cases of returns with low ratios of taxable income (as adjusted) to expanded income. The importance of this observation is that tax policies which are designed to eliminate high-income nontaxable returns may address only part of the problem of high-income individuals not paying a fair share of taxes.

Average Income, Average Income Tax, and Average Tax Rate for Tax Returns
with Income of \$200,000 and Over Under Alternative Concepts -- 1976

Taxpaying Class and Income Concept Used to Classify Returns	: : Number of : Returns	: : Average : Income : (per Income: : Concept)	: : Average : Income : Expanded	: : Average : Total : Tax	: : Effective : per : Income : Concept	: : Tax Rate : per : Expanded : Income
<u>Expanded Income</u>						
All Returns	53,587	\$413,617	\$413,617	\$144,942	35.0%	35.0%
Nontaxable Returns	89	350,427	350,426	0	0	0
Nearly Nontaxable Returns	393	613,842	613,842	43,583	7.1	7.1
All Other Taxable Returns	53,105	412,241	412,241	145,936	35.4	35.4
<u>Adjusted Gross Income</u>						
All Returns	41,761	376,712	452,650	167,656	44.5	37.0
Nontaxable Returns	68	342,456	242,765	0	0	0
Nearly Nontaxable Returns	411	530,297	395,679	30,757	5.8	7.8
All Other Taxable Returns	41,282	375,239	453,573	169,296	45.1	37.3
<u>Adjusted Gross Income plus Preferences</u>						
All Returns	56,512	412,873	401,388	139,993	33.9	34.9
Nontaxable Returns	114	370,158	288,790	0	0	0
Nearly Nontaxable Returns	919	605,672	462,172	44,498	7.4	9.6
All Other Taxable Returns	55,479	409,767	400,613	141,863	34.6	35.4
<u>Adjusted Gross Income less Investment Interest</u>						
All Returns	39,346	375,988	466,644	174,066	46.3	37.3
Nontaxable Returns	42	321,595	338,190	0	0	0
Nearly Nontaxable Returns	178	483,478	504,798	21,916	4.5	4.3
All Other Taxable Returns	39,126	375,558	466,608	174,945	46.6	37.5

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Source: 1976 Statistics of Income.

Table 15

Average Income, Average Income Tax, and Average Tax Rate for Tax Returns
with Income of \$200,000 and Over Under Alternative Concepts -- 1975

Taxpaying Class and Income Concept Used to Classify Returns	: : Number of : Returns	: : Average : (per Income: : Concept)	: : Average : Income : Expanded	: : Average : Total : Tax	: : Effective Tax Rate : per : Income : Concept : Expanded : Income
<u>Expanded Income</u>					
All Returns	40,884	\$412,202	\$412,202	\$124,412	30.2%
Nontaxable Returns	215	377,260	377,260	0	0
Nearly Nontaxable Returns	1,409	585,061	585,061	38,505	6.6
All Other Taxable Returns	39,260	406,190	406,190	146,516	36.1
<u>Adjusted Gross Income</u>					
All Returns	33,606	377,395	439,787	160,356	42.5
Nontaxable Returns	260	450,385	253,112	0	0
Nearly Nontaxable Returns	732	522,967	437,803	15,251	2.9
All Other Taxable Returns	32,614	373,546	441,320	164,738	44.1
<u>Adjusted Gross Income plus Preferences</u>					
All Returns	43,344	413,254	398,425	136,322	33.0
Nontaxable Returns	362	436,122	264,174	0	0
Nearly Nontaxable Returns	2,257	551,326	447,293	30,793	5.6
All Other Taxable Returns	40,725	405,399	396,910	143,382	35.4
<u>Adjusted Gross Income less Investment Interest</u>					
All Returns	31,391	375,534	454,984	167,922	44.7
Nontaxable Returns	126	376,738	407,952	0	0
Nearly Nontaxable Returns	345	493,962	595,093	22,368	4.5
All Other Taxable Returns	30,900	374,450	453,906	170,340	45.5

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July 24, 1978

Source: 1975 Internal Revenue Service tax model.

Chapter 5

Avoiding Taxes: Exclusions, Deductions, Credits, and Other Devices

How did people with expanded income or AGI of \$200,000 or more avoid paying any Federal individual income tax? Since the data indicate basic similarities between nontaxable and nearly nontaxable returns, an analysis of the reasons why nontaxable returns are nontaxable should also illuminate the methods used to reduce taxes on nearly nontaxable returns.

Basically, there are four means by which high-income persons may substantially reduce or eliminate their income taxes: (1) tax preference income which is omitted from the tax base; (2) deductions in calculating taxable income; (3) special tax computations; and (4) credits against tax. Since tax preference income is already omitted from AGI, traditional methods for analyzing reasons for nontaxability of high AGI returns have tended to understate the importance of tax preference income.

Attributing Nontaxability: Methodology

There are three approaches to analyzing the reasons for nontaxability (and near nontaxability). The first shows the largest single item of deduction or credit on each return. The second approach again treats each deduction or credit separately and gives its size relative to income. The third approach aggregates data for all returns in the group and shows the total value for each deduction or credit.

In many of the reviews of high-income nontaxable returns undertaken since the late 1960's, the largest single deduction or credit item on the return has been given as the reason for the return's nontaxability. However, it is not typical for any one deduction or credit to be large enough by itself to eliminate entirely a person's income tax. Ordinarily, nontaxability is produced by a combination of items, none of which taken alone may be extraordinarily large. Moreover, attributing nontaxability to the single largest item disregards the size of the largest item both in absolute terms and in relation to the total income on a return. If a return has many different deductions and credits, even the largest one may be relatively small. On

the other hand, if only a few provisions are used and the return is nontaxable, even the second or third largest item may be very significant. The largest item method would count the largest, but still small item on the first return but ignore the second largest, but still very large item on the second return. There are, therefore, deficiencies in this approach.

For comparability with earlier analyses, Tables 16 and 17 show the number of and percentages of the total number of returns on which particular a deduction or credit item was the largest item. Table 16 is for 1976; Table 17 is for 1975. These tables contain significantly more data than those available or prior years. In addition to showing the information for nontaxable returns, similar data is also shown for taxable returns. ^{1/} The comparable data for taxable returns permits the importance of various deductions to be put in perspective. Whether an item is more or less important on nontaxable than on taxable returns may be of more significance than its absolute importance. These two tables also contain data for the high income returns under all four definitions of income. This is the first time such information has been presented for other than high AGI returns.

Another means of determining the importance of various deductions or credits is to show the value of each deduction and credit as a percentage of income. If the percentages of income are made into a few categories, e.g., less than 10 percent of income, 10 percent to 20 percent of income, etc., the number and/or the share of deductions falling into these categories can be determined for a group of returns. This method has the advantage of providing two pieces of data for each deduction or credit used: whether or not the provision was used; and, if used, its importance relative to income. For nontaxable returns, this method shows the frequency with which a particular credit or deduction is large enough so that nontaxability can reasonably be attributed to it alone. However, this method only illuminates the importance of each deduction or credit separately; it does not provide information on how frequently particular combinations of deductions and/or credits appear on a single tax return.

^{1/} To avoid unnecessary complexity in the tables, only the percentage distribution and not the actual count is shown for taxable returns.

Table 16

Largest Deduction or Credit on Tax Returns with Income of \$200,000 or Over,
Under Alternative Income Concepts -- 1976

Largest Item	1/	:: Nontaxable Returns ::		Taxable Returns ::		Nontaxable Returns ::		Taxable Returns ::	
		:: Number : Percentage ::		Percentage		:: Number : Percentage ::		Percentage	
-----Expanded Income-----									
-----Adjusted Gross Income-----									
Interest Paid Deduction	<u>2/</u>	18	20.2 %	4.2 %		31	45.6 %	14.6 %	
Taxes Paid Deduction		2	2.2	55.2		1	1.5	50.4	
Contributions Deduction		19	21.3	23.8		5	7.4	22.6	
Medical Expense Deduction		--	--	1.0		--	--	0.8	
Casualty Loss Deduction		22	24.7	0.3		6	8.8	0.3	
Miscellaneous Deduction		14	15.7	6.5		11	16.2	5.1	
Foreign Tax Credit		14	15.7	1.3		14	20.6	1.0	
Investment Credit		--	--	6.4		--	--	4.6	
All Other Preference Credits	<u>3/</u>	--	--	1.2		--	--	0.6	
TOTAL		89	100 %	100 %		68	100 %	100 %	
-----AGI plus Preferences-----									
-----AGI less Investment Interest-----									
Interest Paid Deduction	<u>2/</u>	45	39.5 %	16.4 %		7	16.7 %	3.9 %	
Taxes Paid Deduction		1	0.9	47.9		1	2.4	57.0	
Contributions Deduction		21	18.4	21.5		3	7.1	24.7	
Medical Expense Deduction		--	--	0.9		--	--	0.9	
Casualty Loss Deduction		22	19.3	0.3		6	14.3	0.4	
Miscellaneous Deduction		11	9.6	5.3		11	26.2	6.1	
Foreign Tax Credit		14	12.3	1.2		14	33.3	1.0	
Investment Credit		--	--	5.5		--	--	5.4	
All Other Preference Credits	<u>3/</u>	--	--	1.1		--	--	0.7	
TOTAL		114	100 %	100 %		42	100 %	100 %	

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Source: 1976 Statistics of Income.

- 1/ On returns with both large itemized deductions and large credits, the largest deduction or credit was determined by omitting the largest deduction, recomputing the tax, and comparing the resulting tax to the largest credit.
- 2/ Adjusted for any interest which may already have been deducted in the calculation of income.
- 3/ Includes credit for the elderly, child care credit, investment credit, work incentive (WIN) credit, foreign tax credit, credit for contributions to candidates for public office, new residence credit, and earned income credit.

Table 17

Largest Deduction or Credit on Tax Returns with Income of \$200,000 or Over
Under Alternative Income Concepts -- 1975

Largest Item 1/	:: Nontaxable Returns :: Taxable Returns :: Nontaxable Returns :: Taxable Returns			:: Number : Percentage :: Number : Percentage ::			:: Taxable Returns :: Taxable Returns :: Taxable Returns		
	Percentage ::	Percentage ::	Percentage ::	Percentage ::	Percentage ::	Percentage ::	Percentage ::	Percentage ::	Percentage ::
-----Expanded Income-----Adjusted Gross Income-----									
Interest Paid Deduction 2/	80	37.2 %	3.9 %	163	62.7 %	15.3 %			
Taxes Paid Deduction	28	13.0	54.7	17	6.5	48.7			
Contributions Deduction	34	15.8	24.2	24	9.2	22.8			
Medical Expense Deduction	--	--	1.1	--	--	0.7			
Casualty Loss Deduction	13	6.1	0.3	8	3.1	0.3			
Miscellaneous Deduction	43	20.0	6.7	35	13.5	5.1			
Foreign Tax Credit	13	6.1	0.9	13	5.0	0.9			
Investment Credit	4	1.9	6.8	--	--	5.5			
All Other Preference Credits 3/	--	--	1.4	--	--	0.8			
TOTAL	215	100 %	100 %	260	100 %	100 %			
-----AGI plus Preferences-----AGI less Investment Interest-----									
Interest Paid Deduction 2/	232	64.1 %	17.1 %	41	32.5 %	3.7 %			
Taxes Paid Deduction	22	6.1	47.0	14	11.1	55.6			
Contributions Deduction	29	8.0	21.6	24	19.1	25.2			
Medical Expense Deduction	--	--	0.9	--	--	0.8			
Casualty Loss Deduction	15	4.1	0.3	6	4.8	0.3			
Miscellaneous Deduction	47	13.0	5.2	28	22.2	6.3			
Foreign Tax Credit	13	3.6	0.9	13	10.3	1.0			
Investment Credit	4	1.1	5.7	--	--	6.3			
All Other Preference Credits 3/	--	--	1.3	--	--	0.9			
TOTAL	362	100 %	100 %	126	100 %	100 %			

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July 24, 1978

Source: 1975 Internal Revenue Service Tax Model.

1/ On returns with both large itemized deductions and large credits, the largest deduction or credit was determined by omitting the largest deduction, recomputing the tax, and comparing the resulting tax to the largest credit.

2/ Adjusted for any interest which may already have been deducted in the calculation of income.

3/ Includes retirement income credit, investment credit, work incentive (WIN) credit, foreign tax credit, credit for contributions to candidates for public office, new residence credit, and earned income credit.

Tables 18 through 25 present itemized deductions as a whole and each itemized deduction and major tax credit separately as a percentage of income. Each line of these tables shows the total number of returns which used the particular deduction or credit at all and the relative importance of each deduction as a percentage of income. These tables also provide separate distributions for investment interest not in excess of investment income and for investment interest in excess of investment income. Tables 18 through 21 are for 1976; Tables 22 through 25 are for 1975. For each year, there is a separate table for high-income nontaxable returns selected by each of the four definitions of income.

A third method of examining how returns are made nearly or completely nontaxable is to calculate the average impact of a particular provision in reducing income or taxes for a group of taxpayers. This method is simple and straightforward. It can also be used to show the effect of particular provisions on average or aggregate tax liabilities. However, it does have the disadvantage of averaging data that may be widely disparate so that differences among returns are obscured. If 50 returns were to make extensive use of a provision and 50 others did not use that provision at all, average or aggregate data would indicate moderate use even though not a single return in the group used the provision moderately.

Aggregate income, preferences, deductions, credits, and taxes for 1976 returns with incomes of \$200,000 or more are shown in the first eight tables in Appendix A. There are two tables for each of the four income definitions. The first table contains aggregate data; on the second table, all items are shown as percentages of income. Each table has data for all returns, nontaxable returns, nearly nontaxable returns, and all other taxable returns. The percentage tables facilitate comparisons among the nontaxable, nearly nontaxable, and all other taxable columns. Data for 1975 and for 1974 are contained in analogous tables in Appendices B and C, respectively.

How to Make a Return Nontaxable

All three of the approaches described in the preceeding section may be used together to analyze the reasons for nontaxability. However, because of serious data problems, only qualified conclusions can be drawn from analysis of the 1976 data. Apparently, at least half of the 1976 high-income

Table 18

Itemized Deductions and Credits as Percentages of Expanded Income for
Nontaxable Returns with Expanded Income of \$200,000 or Over -- 1976

Deduction or Credit	Number of Returns with Deduction or Credit									
	: Total : Deduction or Credit as Percentage of Expanded Income									
	: of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100%									
	: Number: Under : under : under : under : under : under : under : under : or									
	Returns:	10%	20%	30%	40%	50%	60%	70%	100%	more 1/
All Returns	89									
Itemized deductions, total,	79	14	3				3		22	37
Medical deduction	52	51			1					
Taxes paid deduction	71	60	6	2	2				1	
Contributions deduction	64	43			1	3			2	15
Interest deduction	17	9	1				1		4	2
Casualty loss deduction	23	1						1	18	3
Miscellaneous deduction	54	33	4	5	1		1		2	8
Deduction Equivalent of:										
Foreign tax credit	14							1	13	
Investment credit	3	2	1							
All other preference credits.	1	1								
Memo: Investment interest in excess of investment income <u>2/</u>	10	4					1		3	2

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding expanded income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 19

Itemized Deductions and Credits as Percentages of Adjusted Gross Income for
Nontaxable Returns with Adjusted Gross Income of \$200,000 or Over -- 1976

Deduction or Credit	Number of Returns with Deduction or Credit									
	: Total : <u>Deduction or Credit as Percentage of Adjusted Gross Income</u>									
	: of :	: 10% :	: 20% :	: 30% :	: 40% :	: 50% :	: 60% :	: 70% :	: 100% :	
	: Number:	: Under :	: under :	: under :	: under :	: under :	: under :	: under :	: under :	: or
	:Returns:	10%	20%	30%	40%	50%	60%	70%	100%	:more 1/
All Returns	68									
Itemized deductions, total	68	11	2	1			1	11	42	
Medical deduction	29	27			1	1				
Taxes paid deduction	60	48	8	3				1		
Contributions deduction	53	42	2	1	5	2		1		
Interest deduction	54	13	6	3	1	1		12	18	
Casualty loss deduction	10	4					1	2	3	
Miscellaneous deduction	56	33	9	3		1		2	8	
Deduction Equivalent of:										
Foreign tax credit	15	1					1	13		
Investment credit	8	5	1	2						
All other preference credits.	2	2								
Memo: Investment Interest: <u>2/</u>										
Not in excess of investment income	49	14	5	3	1	3	6	3	8	6
In excess of investment income	28	6	4	2	4	3	1	6	2	

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 20

Itemized Deductions and Credits as Percentages of Adjusted Gross Income plus Preferences for
Nontaxable Returns with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1976

Deduction or Credit	Number of Returns with Deduction or Credit										
	: Total : Deduction or Credit as Percentage of AGI Plus Preferences										
	: of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100%										
	: Number: Under : under : under : under : under : under : under : under : under : or										
	Returns:	10%	20%	30%	40%	50%	60%	70%	100%	more	1/
All Returns	114										
Itemized deductions, total	104	13	2	1			1	6	26	55	
Medical deduction	64	62			1	1					
Taxes paid deduction	96	81	11	3					1		
Contributions deduction	88	62	2	2	4	2			1	15	
Interest deduction	75	31	6	6	1		2	1	12	16	
Casualty loss deduction	26	4						1	18	3	
Miscellaneous deduction	76	50	9	6			1		2	8	
Deduction Equivalent of:											
Foreign tax credit	15	1						1	13		
Investment credit	8	5	1	2							
All other preference credits.	2	2									
Memo: Investment interest in excess of investment income <u>2/</u>	26	6	4	2	3	3			6	2	

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Source: 1976 Statistics of Income.

- 1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income plus preferences.
- 2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 21

Itemized Deductions and Credits as Percentages of Adjusted Gross Income less investment Interest for Nontaxable Returns with Adjusted Gross Income less Investment Interest of \$200,000 or Over -- 1976

Deduction or Credit	Number of Returns with Deduction or Credit									
	: Total : Deduction or Credit as Percentage of AGI less Investment Interest									
	: of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100%									
	: Number: Under : under : under : under : under : under : under : under : or									
	:Returns:	10%	20%	30%	40%	50%	60%	70%	100%	:more 1/
All Returns	42									
Itemized deductions, total	42	11	3					5	23	
Medical deduction	17	16			1					
Taxes paid deduction	34	26	3	2	2			1		
Contributions deduction	28	22			1	2	1	2		
Interest deduction	16	8	1					4	3	
Casualty loss deduction	7	1						1	2	3
Miscellaneous deduction	34	16	4	2	1		1	2	8	
Deduction Equivalent of:										
Foreign tax credit	14							1	13	
Investment credit	3	2	1							
All other preference credits.	1	1								
Memo: Investment interest in excess of investment income <u>2/</u>	10	4						3	3	

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income less investment interest.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 22

Itemized Deductions and Credits as Percentages of Expanded Income for Nontaxable
Returns with Expanded Income of \$200,000 or Over -- 1975

Deduction or Credit	Number of Returns with Deduction or Credit									
	: Total : Deduction or Credit as Percentage of Expanded Income									
	: of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100%									
	: Number: Under : under : under : under : under : under : under : under : or									
	:Returns:	10%	20%	30%	40%	50%	60%	70%	100%	:more 1/
All Returns	215									
Itemized deductions, total.....	172	19	7	1	5	8	6	9	38	79
Medical deduction	74	68	5		1					
Taxes paid deduction	162	95	29	16	7	2	5	2	5	1
Contributions deduction	153	89	8	13	13	12	15	1	2	
Interest deduction	94	43	5	1	4	4	5	2	17	13
Casualty loss deduction	26	11	2						2	11
Miscellaneous deduction	143	63	20	10	8	16	8	4	8	6
Deduction Equivalent of:	51	20	11	7		1		1	11	
Foreign tax credit	25	6	3	3		1		1	11	
Investment credit	31	19	9	3						
All other preference credits.	2	2								
Memo: Investment interest in excess of investment income <u>2/</u>	56	10	3		3	4	4	2	17	13

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Source: 1976 Statistics of Income.

1/ Includes returns with total reported deductions equal to or exceeding expanded income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 23

Itemized Deductions and Credits as Percentages of Adjusted Gross Income for Nontaxable
Returns with Adjusted Gross Income of \$200,000 or Over -- 1975

Deduction or Credit	Number of Returns with Deduction or Credit									
	: Total : Deduction or Credit as Percentage of Adjusted Gross Income									
	: of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100%									
	: Number: Under : under : under : under : under : under : under : under : or									
	:Returns:	10%	20%	30%	40%	50%	60%	70%	100%	:more 1/
All Returns	260									
Itemized deductions, total	256	3	4	1		1		4	70	173
Medical deduction	123	117	4	1	1					
Taxes paid deduction	253	184	34	13	9	2	2	2	6	1
Contributions deduction	242	146	22	19	29	13	13			
Interest deduction	246	41	17	9	12	13	8	19	74	53
Casualty loss deduction	29	20	1				1		2	5
Miscellaneous deduction	226	128	31	21	10	8	7	4	8	9
Deduction Equivalent of:	65	33	10	6	3		1	1	11	
Foreign tax credit	35	13	3	3	3		1	1	11	
Investment credit	39	30	6	3						
All other preference credits.	5	5								
Memo: Investment Interest: <u>2/</u>										
Not in excess of investment income	238	52	30	21	18	15	14	21	60	7
In excess of investment income	119	21	11	10	18	14	11	6	18	10

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Source: 1975 Internal Revenue Service tax model.

1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income.

2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 24

Itemized Deductions and Credits as Percentages of Adjusted Gross Income Plus Preferences for Nontaxable Returns with Adjusted Gross Income Plus Preferences of \$200,000 or Over -- 1975

Deduction or Credit	Number of Returns with Deduction or Credit									
	: Total : Deduction or Credit as Percentage of AGI plus Preferences									
	: of : : 10% : 20% : 30% : 40% : 50% : 60% : 70% : 100%									
	: Number: Under : under : under : under : under : under : under : under : or									
	Returns:	10%	20%	30%	40%	50%	60%	70%	100%	more 1/
All Returns	362									
Itemized deductions, total	319	12	11	8	5	10	6	6	110	151
Medical deduction	143	137	5		1					
Taxes paid deduction	309	233	38	16	6	5	2	2	6	1
Contributions deduction	295	196	26	29	19	25				
Interest deduction	291	52	27	21	18	12	11	16	83	51
Casualty loss deduction	44	29					1		4	10
Miscellaneous deduction	265	156	33	22	11	17	8	3	8	7
Deduction Equivalent of:	80	45	14	8		1		2	10	
Foreign tax credit	35	14	3	5		1		2	10	
Investment credit	54	42	9	3						
All other preference credits.	5	5								
Memo: Investment Interest: 2/										
Not in excess of investment income	233	66	38	26	30	13	16	17	67	10
In excess of investment income	116	25	9	9	19	11	11	6	18	8

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Source: 1975 Internal Revenue Service tax model.

- 1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income plus preferences.
- 2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

Table 25

Itemized Deductions and Credits as Percentages of Adjusted Gross Income less Investment Interest for
Nontaxable Returns with Adjusted Gross Income less Investment Interest of \$200,000 or Over - 1976

Deduction or Credit	: Number of Returns with Deduction or Credit									
	: Total : Deduction or Credit as Percentage of AGI less Investment Interest									
	: of :	: 10% :	: 20% :	: 30% :	: 40% :	: 50% :	: 60% :	: 70% :	: 100% :	
	: Number: Under :	: under :	: under :	: under :	: under :	: under :	: under :	: under :	: under :	: or
	:Returns:	10% :	20% :	30% :	40% :	50% :	60% :	70% :	100% :	more 1/
All Returns	126									
Itemized deductions, total.....	122	4	3	1		1		4	31	78
Medical deduction.....	59	53	5		1					
Taxes paid deduction	119	65	25	11	7	2	2	2	3	2
Contributions deduction	114	58	5	9	11	10	17	2	2	
Interest deduction	78	29	3	2	2	2	6	2	17	15
Casualty loss deduction	13	6	1						1	5
Miscellaneous deduction	108	43	15	11	8	6	7	5	6	7
Deduction Equivalent of:	39	11	8	4	3		1	1	11	
Foreign tax credit	24	5	2	1	3		1	1	11	
Investment credit	19	11	6	2						
All other preference credits.	2	2								
Memo: Investment interest in excess of investment income <u>2/</u>	55	10	2		2	2	5	3	16	15

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Source: 1976 Statistics of Income.

- 1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income less investment interest.
- 2/ For each return total interest was divided into two parts: an amount not in excess of investment income; and the remainder which represents investment interest in excess of investment income. Mortgage interest (which is ordinarily not a large portion of total interest for these returns) was subtracted from total interest to determine investment interest. Investment income consists of dividends, interest, and realized capital gains included in income.

returns which filed as nontaxables actually had large enough itemized deductions to be subject to the minimum tax and, therefore, were taxable. Usually, such returns would fall into the nearly nontaxable category. Because of these data problems, some of the analysis in this chapter is repeated in Chapter 6 for the truly nontaxables, but the corrected data is only available for high AGI returns. The data analyzed in this chapter are all that is available for the three other income measures. Despite these problems, analyzing the available data should shed some light on which tax provisions are used most commonly to make returns nontaxable or nearly nontaxable.

As in prior years, the interest paid deduction was the largest deduction item most frequently for high AGI returns (see Table 17). However, the importance of interest as the largest deduction or credit drops by more than half and falls to only the third most important item when high expanded income returns are used (Table 16). More importantly, on only 10 of the 89 high expanded income nontaxable returns was there any investment interest in excess of investment income (Table 18). Interest expense (including mortgage interest) was almost 17.6 percent of expanded income for nontaxables, 9.6 percent for nearly nontaxables, but only 2.9 percent for all other taxables. Excess investment was 6.5 percent for nontaxables, 1.6 percent for nearly nontaxables, and only 0.3 percent for all other taxables (see Table 76-2 in Appendix A). Clearly, investment interest, both non-excess and excess, was a less important item for the all other taxables than for the other groups. However, under the expanded income concept, non-excess investment interest is recognized as a legitimate investment expense, and in only six cases was excess investment interest large enough to play a major role in making a return nontaxable (Table 16).

The largest item method shows the casualty loss deduction to be the most frequent reason for making a high expanded income return nontaxable in 1976; it was among the least important items for taxable returns (Table 16). The importance of casualty losses is confirmed by both other methods, and it likely that it played a major role in the nontaxability of one quarter of all nontaxable high expanded income returns (Table 18). This item is vastly more important for nontaxables than for taxable returns. Although the absolute number of casualty loss deductions did not change appreciably between 1975 and 1976, the relative importance of the casualty losses grew dramatically because the casualty loss deduction became one of only two itemized

deductions not included among the excess itemized deductions subject to the minimum tax (Tables 18 and 22). The casualty deduction was the largest single item 14 times (out of 89) in 1976 (Table 16) and 13 times (out of 215) in 1975 (Table 17).

The deduction for charitable contributions was cited second most frequently as the largest item causing nontaxability. Contributions were the largest item on 21.3 percent of nontaxable expanded income returns, about as frequently (23.8 percent) as on taxable returns (Table 16). Also, on over two-thirds (43 out of 64) of the returns which had any contribution deduction, that deduction was less than 10 percent of expanded income (Table 18). On the other hand, there are 17 returns on which this deduction exceeds 70 percent of expanded income, and 15 returns on which it exceeds 100 percent of expanded income (Table 18). This is approximately the same as the 19 cases in which it is the largest deduction (Table 16). In the aggregate, the deductions for charitable contributions on nontaxable high expanded income returns are extremely large (Table 76-2). In fact, it is one and one half times AGI, which far exceeds the statutory limit of deductibility. It is likely that the data are being distorted by a few extremely large deductions which have not been reduced to their legal limits because the returns would have been nontaxable anyway. In the aggregate, the contributions of the nearly nontaxables do not appear as impossibly large as for the nontaxables. Nevertheless, the charitable deduction is a three times larger share of expanded income for nearly nontaxables than for other taxables (Table 76-2). Thus, although the contributions deduction may have been a major factor in the nontaxability of more than one-fifth of the nontaxable returns, for most nontaxable returns, contributions are no more important than for taxable returns.

As measured by the largest single item method, the only two other items of significance are the miscellaneous deduction and the foreign tax credit (Table 16). Both are much more important for nontaxables than for taxables. For high-income returns, the miscellaneous deduction consists mainly of investment expenses other than interest, employee expenses, and alimony paid, all of which could arguably be "above-the-line" deductions which should be taken in computing income. ^{2/} As Table 76-2 shows, this deduction is far more important for nontaxables (22.8 percent of expanded

^{2/} Beginning in 1977, alimony payments have been converted from a miscellaneous deduction for itemizers to a deduction in the calculation of AGI.

income) than for nearly nontaxables (10.0 percent of expanded income) or for all other taxes (1.7 percent of expanded income). On 11 percent of the high expanded income returns, the miscellaneous exceeded 70 percent of expanded income, (Table 18).

When the foreign tax credit appears on a nontaxable return, it is usually large enough to account for nontaxability entirely by itself, even if other deductions and credits are relatively small. The nontaxability of about one out of six of the expanded income nontaxables can be attributed to the foreign tax credit (Table 18). As measured by aggregate data (Table 76-2), this credit is moderately important for both nontaxables (equivalent to a deduction of 9.5 percent of expanded income) and for nearly nontaxables (11.0 percent), but it is of almost no significance for all other taxables (0.2 percent). The foreign tax credit is the only credit of any importance for the nontaxables. In fact, only three nontaxables have any investment credit, and it is never large (Table 18). The investment credit is not the largest item on any nontaxable return even though it is the largest item for 6.4 percent of taxable high expanded income returns (Table 16). Its value relative to total expanded income of nontaxables is almost imperceptible (Table 76-2).

The deduction for state and local taxes is most noticeable for its lack of importance in causing nontaxability. In the aggregate, taxes as a percentage of expanded income are about the same level for all three categories of returns (Table 76-2). Taxes are the largest deduction category on only 2.2 percent of nontaxable returns but are the largest item on over half, (55.2 percent) of all taxable high expanded income taxable (Table 16). Though deductions for taxes appeared on most nontaxable expanded income returns, the deduction was less than 10 percent of expanded income two-thirds of the time, only exceeded 20 percent of expanded income 6 percent of the time, and only exceeded 70 percent of expanded income in one percent of the cases (Table 18).

For the nontaxables, preferences comprised 53.6 percent of expanded income, about 93 percent of which was due to the excluded portion of long-term capital gains. For the nearly nontaxables, preferences were substantially smaller (38.7 percent of expanded income) with about 79 percent of them from excluded capital gains. For all other taxable returns, preferences were 23.8 percent of expanded income, with about 74 percent of them for excluded capital gains (Table 76-2).

The tax savings from the alternative tax, from the maximum tax on earned income, and from income averaging are not significant for either nontaxables or nearly nontaxables. Taken together, they are much less important for these groups than for the remainder of taxable returns (Table 76-2).

Nontaxables are not affected by the minimum tax. For nearly nontaxables, the minimum tax is equivalent to losing a deduction of 10.0 percent of expanded income, but it does represent 79 percent of that group's tax bill. Thus, eliminating the minimum tax would reduce the tax liabilities to an insignificant level of 1.5 percent of expanded income. For all the other taxable returns, the minimum tax represents a loss of deductions of 3.7 percent of expanded income, but it represents less than 7 percent of the group's total tax bill (Table 76-2).

In terms of aggregates for the entire group of fully and nearly nontaxables, the significance of itemized deductions in reducing taxes appears to diminish. Of course, the aggregates do tend to show averages and thereby hide some of the differences that make individual returns unique. Nonetheless, this methodology indicates that the omission of tax preference income from the tax base is the most important means by which taxes are reduced or eliminated (Table 76-2).

Findings

This chapter has provided the data and the methods for analyzing the relative importance of various items in reducing taxes or in making a return nontaxable. Three different methods have been employed: the largest single deduction or credit; deductions and credits on a particular return as percentages of income shown on that return; and data showing the average shares of preferences, deductions, and credits for all returns in a particular class. The data indicate that nontaxability often is due to a combination of causes. Even in those cases where a very large single item does appear, no one particular item is of overwhelming importance. In terms of expanded income, several items play major rolls in nontaxability: preference income, predominantly capital gains; itemized deductions for interest, for miscellaneous expenses, for charitable contributions, and for casualty losses; and the foreign tax credit.

In order to verify the indications that many high-income individuals who reported that they had no tax liabilities were actually subject to the minimum tax, an individual inspection of the 68 supposedly nontaxable high AGI returns was undertaken. As a result of this case by case analysis, it was determined that there were only 22 high AGI nontaxables in 1976. An analysis of these 22 returns including the reasons for their nontaxability is contained in Chapter 6.

Chapter 6

22 High Adjusted Gross Income Nontaxable Returns in 1976

Fewer Nontaxable Returns

All of the data presented so far in this report have been derived from the Internal Revenue Service Statistics of Income (SOI) for individual income tax returns. For each year, the SOI consists of a weighted sample of all individual tax returns which have been filed. Except for certain corrections of obvious arithmetic errors, the SOI data are exactly as reported by taxpayers on their tax returns. Not only are the data before audit by the IRS, but also the data do not reflect errors in tax computations, etc. which are apparent from the income, deduction, and credit items shown by the taxpayers on their returns -- even if the tax shown is inconsistent with other items on the return.

For purposes of classifying tax returns for this report, the most important problem in using tax as reported on the return has been the failure of taxpayers to calculate properly the minimum tax on items of tax preference. In the first year or two after the introduction of the minimum tax in 1970, a substantial proportion of high income, supposedly nontaxable tax returns contained this error and were actually taxable. By 1973, the error rate had fallen to about 5 percent; and, in 1975, this error had virtually disappeared. However, this error has reoccurred on 1976 tax returns to such an extent that the 1976 SOI data vastly overstate the frequency of high-income, nontaxable returns. An examination of all 68 of the supposedly nontaxable high AGI returns showed that there are actually only 22 nontaxable returns with AGI of \$200,000 or over.

After all of the 1976 tabulations shown elsewhere in this report were completed, it became apparent that there were internal inconsistencies in the tabulations that could only be a result of taxpayers' errors in the computation of the minimum tax on items of tax preference, particularly the new preference for excess itemized deductions. Under the Tax

Reform Act of 1976, itemized deductions (other than casualty losses or medical expenses) to the extent that they exceed 60 percent of AGI were made a tax preference item for minimum tax purposes.^{1/} Beginning in 1976, the exclusion from the minimum tax is the larger of \$10,000 (\$5,000 on the return of a married person filing separately) or one-half of ordinary tax liabilities. For returns with no regular tax liability, a minimum tax would be due on any return where a particular itemized deduction or the sum of all itemized deductions (other than casualty and medical deductions) exceeded 60 percent of AGI by at least \$10,000 (or \$5,000 on the separate return of a married person). An examination of Table 19 shows that 54 and of the 68 supposedly nontaxable returns with AGI of \$200,000 and over have total itemized deductions exceeding 60 percent of AGI and 53 have total deductions exceeding 70 percent of AGI. Even after excluding the returns with large casualty losses or large medical expenses, the table shows that 46 of the high-income returns as defined by AGI are likely to be subject to the minimum tax simply from their excess itemized deductions.^{2/} Thus, instead of 68 high-income, nontaxable returns, Table 19 suggests that there are only about 22.

Examination of the 68 supposedly nontaxable high AGI returns for 1976 (which had already been assembled), verified the conclusions drawn from the data in Table 19. Based solely on the excess itemized deduction tax preference item, 45 of the returns were actually subject to the minimum tax.^{3/}

^{1/} Under the "no tax benefit rule," if itemized deductions exceed 100 percent of AGI, only the amount between 60 and 100 percent of AGI is a preference item. Otherwise, itemized deductions that did not reduce tax liabilities would produce an increase in the minimum tax.

^{2/} The exact number of returns subject to the minimum tax cannot be determined exactly from Table 19 because it cannot be determined which of the returns have the large casualty and medical deductions; hence, the table does not show the exact distribution of total itemized deductions excluding medical and casualty expenses.

^{3/} During this examination it was found that one return should not have been included in the high AGI group; it was included only because of the incorrect placement on the return of certain income and deduction items.

Thus, there are only 22 high AGI nontaxables for 1976. Only five one-hundredths of one percent of all high AGI tax returns filed in 1976 were nontaxable. These 22 nontaxable returns represent a reduction of over 90 percent in the number of nontaxable high income returns as compared to 1974 and 1975. With only 22 nontaxable returns, all of which were examined, it is possible to describe these returns, their characteristics, and the reasons for their nontaxability in more detail and with greater certainty than was possible for the far larger groups of nontaxable returns in prior years. The characteristics of these 22 returns are described in the second section of this chapter.

Since AGI plus preferences is always larger than AGI, any return with itemized deductions (other than medical expenses or casualty losses) in excess of 60 percent of AGI plus preferences will be subject to the minimum tax, and, therefore, will be taxable. Using this methodology for returns with at least \$200,000 of AGI plus preferences, it appears as if at least 63 of the 114 returns, or 55 percent, which did not report any tax liabilities are actually taxable (See Table 20). This method of determining tax status is not quite as reliable for returns selected by expanded income or by AGI less investment interest. However, because of the substantial overlap of the same tax returns within all four groups, the results of a similar calculation for these two other groups cannot be too far off. Table 18 indicates that 36, or 40 percent, of the 89 returns with expanded income of \$200,000 or over are taxable. Similarly, 21, or 50 percent, of the 42 returns with high AGI less investment interest are taxable (Table 21).

Unfortunately, it was not possible to verify fully these indications about the substantially reduced numbers of nontaxable returns as selected by expanded income, AGI plus preferences, and AGI less investment interest. The actual tax returns for the high income nontaxables under these three income definitions were not readily available. Since obtaining either the actual returns or additional tabulations from the 1976 SOI file would have delayed completion of this report inordinately, corrected tabulations and detailed analysis based on them will be included in the next high income report.

For purposes of this report, it will be assumed that the indications from Tables 18 through 22 are accurate and that in 1976 there are:

- 53 high-income nontaxables as defined by expanded income;
- 22 high-income nontaxables as defined by AGI;
- 41 high-income nontaxables as defined by AGI plus preferences; and
- 21 high-income nontaxables as defined by AGI less investment interest.

While the additional analyses of the 1976 high-AGI nontaxables do show a significant change from the SOI data, they do not eliminate the usefulness of SOI data, especially for the nearly nontaxable and all other taxable categories. Applying the minimum tax to these returns only shifts the returns from the nontaxables to the nearly nontaxables. Since these two groups generally exhibit similar characteristics, the shift of returns will not significantly affect the conclusions about these returns that can be drawn from the SOI data. The only significant change is a decrease in the number of nontaxables and an equivalent increase in the number of nearly nontaxables.

The 22 High-AGI Nontaxables in 1976

The examination of the 22 high-AGI nontaxable returns for 1976 indicated that all except two were nontaxable for one of two reasons: a foreign tax credit or a casualty loss deduction. Fourteen of the returns were clearly nontaxable because of foreign tax credits; six returns were nontaxable because of casualty loss deductions; nontaxability on the last two returns was due to a combination of factors.

As the upper portion of Table 26 indicates, on every one of the 14 returns which were nontaxable due to the foreign tax credit, the foreign tax credit was equivalent to a deduction of at least 70 percent of AGI. On four of these returns, either the standard deduction was used, or the taxpayers did not bother to take either the standard deduction or to itemize their deductions. On the ten returns

Table 26

Itemized Deductions and Credits as Percentages of Adjusted Gross Income for the 22 Nontaxable Returns
with Adjusted Gross Income of \$200,000 or Over in 1976

Itemized Deduction or Credit	Number of Returns with Deduction or Credit									
	Total		Deduction or Credit as Percentage of Adjusted Gross Income		Deduction or Credit as Percentage of Adjusted Gross Income		Deduction or Credit as Percentage of Adjusted Gross Income		Deduction or Credit as Percentage of Adjusted Gross Income	
	Number	:	Number	:	Number	:	Number	:	Number	:
	of	:	of	:	of	:	of	:	of	:
	Returns	:	Returns	:	Returns	:	Returns	:	Returns	:
	10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/		10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/		10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/		10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/		10% : 20% : 30% : 40% : 50% : 60% : 70% : 100% : More 1/	
-----Returns Nontaxable due to the Foreign Tax Credit-----										
Number of Returns	14									
Itemized deductions, total.....	10		7		2		1			
Medical deduction	4		4							
Taxes paid deduction	9		9							
Interest deduction	6		5		1					
Contributions deduction	8		8							
Casualty loss deduction										
Miscellaneous deduction	7		6		1					
Deduction Equivalent of:										
Foreign tax credit	14									14
Investment credit										
-----Returns Nontaxable due All Other Causes-----										
Number of Returns	8									
Itemized deductions, total	8								1	2 5
Medical deduction	3		2				1			
Taxes paid deduction	8		7		1					
Interest deduction	8		4		2				1	
Contributions deduction	8		6		1		1			
Casualty loss deduction	6								1	2 3
Miscellaneous deduction	6		3		2		1			
Deduction Equivalent of:										
Foreign tax credit	1		1							
Investment credit	1						1			
-----Returns Nontaxable due All Other Causes-----										

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1/ Includes returns with total reported deductions equal to or exceeding adjusted gross income.

that had itemized deductions, seven of the returns had deductions of less than 10 percent of AGI, and the remaining three had itemized deductions of between 10 and 30 percent of AGI. On no return were itemized deductions greater than 30 percent of AGI. Table 27 shows the relationship between the largest and the second largest items of deduction or credit on each of these returns. It indicates that on returns that were nontaxable because of the foreign tax credit there was no uniformly important second largest item of deduction or credit. On five of the returns, taxes were the next largest item; on three of the returns, the interest deduction was the next largest deduction; and on two returns various miscellaneous deductions were the next largest item. On four returns, there was no other credit or deduction item (except for the standard deduction). Moreover, in only two cases was the second largest deduction item greater than 10 percent of AGI.

Six of the eight remaining returns were nontaxable because of large casualty losses. These losses were about evenly divided between losses to income-producing property and casualty losses to non-income-producing property such as a personal residence. As indicated on the lower portion of Table 26, these casualty losses were very large. All six of them exceeded 60 percent of AGI; two of them were between 70 and 100 percent of AGI; and three exceeded the entire amount of AGI. The fraction of other itemized deductions on these returns was not nearly so uniform as on the returns that were nontaxable because of the foreign tax credit; however, itemized deductions were never very large. In no case did itemized deductions other than the reported casualty loss exceed 50 percent of AGI. As indicated on Table 27, there was no uniformly second most important deduction or credit item on these six returns. In one case it was interest; in another, taxes; in two cases, charitable contributions; and in two cases, the miscellaneous deduction. It is interesting to note that none of these six returns used the foreign tax credit or the investment credit.

The returns that had large casualty losses are likely to be nontaxable in two or more successive years because they have large carryover losses. However, because of peculiarities of the loss carryover computation and its placement on the tax return, these returns are not likely to appear as high-income nontaxable returns in the carryover years. The carryover of a casualty loss becomes part of a net operating loss. It reduces AGI; it is not a deduction from AGI, as is true for the year in which the casualty

Table 27

Largest and Second Largest Deduction or Credit on the 22 Nontaxable Returns with
Adjusted Gross Income of \$200,000 or Over in 1976

Largest Deduction or Credit	Second Largest Deduction or Credit									
	Interest:		Taxes :		Contrib-:		Medical :		Casualty:	
	Paid :		Paid :		utions :		Expense :		Loss :	
	Deduction:		Deduction:		Deduction:		Deduction:		Deduction:	
Interest Paid Deduction	1									1
Taxes Paid Deduction										
Contributions Deduction	1									1
Medical Expense Deduction										
Casualty Loss Deduction	6	1	1	2					2	
Miscellaneous Deduction										
Foreign Tax Credit	14	3	5						2	4
Investment Credit										

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actually occurred. Because the large casualty loss carryover losses reduce AGI, these returns are not likely to have AGI of \$200,000 or over in the carryover years, and, therefore, they are not likely to be classified as high-income returns in those years.

The two remaining returns were nontaxable for combinations of reasons. One of the returns was nontaxable because of very large medical and interest deductions. This was the only return of the 22 in which the interest-paid deduction exceeded 30 percent of AGI. Even on this return, the interest deduction was only between 50 and 60 percent of AGI. On the last return, itemized deductions just slightly exceeded 60 percent of AGI; however, they did not exceed 60 percent by the \$10,000 necessary to produce minimum tax liability. While itemized deductions reduced AGI by slightly more than 60 percent, the remainder was eliminated by a substantial investment credit and a rather insignificant foreign tax credit. It may be of some interest to note that of the 22 nontaxable returns, this is the only one which used the investment credit at all. 4/

Table 28 summarizes the sources of income, the deductions, and the credits for the 22 nontaxable returns. The data are presented separately for the 14 returns made nontaxable by the foreign tax credit, for those made not taxable for any other reason, and for all 22 returns together. These returns were noticeably different from nontaxables in the recent past. Aside from the one or two items which made them nontaxable, these returns did not appear unusual. Their income sources were typical of high-income taxpayers, they did not appear to be attempting to shelter income from taxes, and their itemized deductions were not unusually large.

Table 29 summarizes some characteristics of these 22 nontaxable returns. Again, the data are separated by the source of nontaxability: either the foreign tax credit or all other reasons. Only one of the 22 returns had AGI of over \$1 million. None of the 8 returns whose nontaxability

4/ Some of the 14 returns which were made nontaxable by large foreign tax credits did have investment credits available. However, because the foreign tax credits completely wiped out tax liability, the investment credits were not used; they were carried forward to future tax years or back to prior years.

Table 28

Income, Deductions, and Credits for the 22 Nontaxable Returns with Adjusted Gross Income of \$200,000 or Over in 1976

	Returns Nontaxable due to Foreign Tax Credit			Other Nontaxable Returns			All Nontaxable Returns		
	Number of:	Amount as:	Percentage:	Number of:	Amount as:	Percentage:	Number of:	Amount as:	Percentage:
	Returns:	Amount	Percentage:	Returns:	Amount	Percentage:	Returns:	Amount	Percentage:
	With Item:	: of AGI	With Item:	With Item:	: of AGI	With Item:	With Item:	: of AGI	With Item:
Wages and salaries	11	\$2,126,484	40.6 %	5	\$ 779,046	34.6 %	16	\$2,905,530	38.8 %
Sole Proprietorship Income	5	804,163	15.4	2	166,077	7.4	7	970,240	13.0
Dividends 1/	5	1,823,485	34.8	8	1,015,037	45.1	13	2,838,522	37.9
Interest	12	141,782	2.7	8	228,763	10.2	20	370,545	5.0
Capital gains 2/	5	2,426	0.1	4	152,888	6.8	9	155,314	2.1
Pensions	1	809	*				1	809	*
Rents and royalties	3	(15,890)	(0.3)	5	14,535	0.6	8	(1,355)	(*)
Partnership income 3/	5	450,573	8.6	6	(112,854)	(5.0)	11	337,719	4.5
Farm income	2	(86,062)	(1.6)	1	(5,418)	(0.2)	3	(91,480)	(1.2)
State income tax refunds	2	8,389	0.2	3	16,394	0.7	5	24,783	0.3
Other income	4	109	*	1	(123)	*	5	(14)	*
Total		5,260,368	100.5		2,254,345	100.2		7,514,713	100.4
Adjustments to income 4/	4	26,193	0.5	1	3,527	0.2	5	29,720	0.4
Adjusted Gross Income		5,234,177	100 %		2,250,818	100 %		7,484,995	100 %
Standard deduction	4	10,400	0.2				4	10,400	0.1
Medical expense deduction	5	739	*	3	110,903	4.9	8	111,642	1.5
Taxes paid deduction	10	62,786	1.2	8	131,565	5.8	18	194,351	2.6
Interest paid deduction	6	81,673	1.6	8	341,745	15.2	14	423,418	5.7
Contributions deduction	8	17,358	0.3	8	211,888	9.4	16	229,246	3.1
Casualty deduction				6	3,690,504	164.0	6	3,690,504	49.3
Miscellaneous deduction	7	54,700	1.1	6	169,949	7.6	13	224,649	3.0
Total deductions		217,256	4.2		4,656,556	206.9		4,873,612	65.1
Taxable Income		4,976,321	95.1		87,087	3.9		5,063,408	67.6
Foreign tax credit	14	2,962,593	56.6	1	262	*	15	2,962,855	39.6
Investment credit				1	18,785	0.8	1	18,785	0.3
Deduction equivalent of:									
Foreign tax credit	14	4,742,934	90.6	1	495	*	1	4,743,429	63.4
Investment credit				1	53,368	2.4	1	53,368	0.7
Number of Returns	14			8			22		

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Source: 1976 income tax returns

* Less than 0.05 percent.

1/ Net of \$100 dividend exclusion.

2/ Net of the deduction of one-half of the excess of net long-term gains over short-term losses.

3/ Includes income from small business corporations and from estates and trusts.

4/ Predominantly, moving expenses.

Table 29

Characteristics of the 22 Nontaxable Returns with
Adjusted Gross Income of \$200,000 or Over in 1976

	:	<u>Nontaxable Due to</u>	:	All
	:	<u>Foreign Tax: All Other</u>	:	Returns
	:	Credit	:	Reasons
	:		:	Nontaxable
<hr/>				
<u>Adjusted Gross Income</u>				
\$ 200,000 - \$ 500,000	11	8	19	
\$ 500,000 - \$1,000,000	2	0	2	
\$1,000,000 and over	<u>1</u>	<u>0</u>	<u>1</u>	
ALL	<u>14</u>	<u>8</u>	<u>22</u>	
 <u>Age</u>				
Under 65	13	7	20	
65 or over <u>1</u> /	<u>1</u>	<u>1</u>	<u>2</u>	
ALL	<u>14</u>	<u>8</u>	<u>22</u>	
 <u>Tax Filing Status</u>				
Single	1	0	1	
Married, Filing Joint Return <u>2</u> /	8	7	15	
Married, Filing Separate Return	2	1	3	
Unmarried, Head of Household	<u>3</u>	<u>0</u>	<u>3</u>	
ALL	<u>14</u>	<u>8</u>	<u>22</u>	

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- 1/ Indicates that on a joint return at least one of the taxpayers claims the extra exemption for age.
- 2/ Includes qualifying widow or widower with at least one dependent child.

was not attributable to the foreign tax credit had AGI in excess of \$500,000. The distribution of the returns by filing status was somewhat unusual. Of the 22 returns only one filed as a single taxpayer, but 3 filed as heads of households, and 3 filed as married persons filing separately. Fourteen of the returns, or 64 percent, were joint returns of married couples. The age distribution on the returns was also noteworthy. On only 2 of the 22 returns were extra exemptions claimed because the tax filers were over 65 years of age.

Foreign Taxes and the Foreign Tax Credit

Because each of these returns was examined individually, it was possible to determine the nature of the foreign taxes for each return. Twelve of the fourteen taxpayers whose liabilities were eliminated by the foreign tax credit paid foreign taxes of more than 50 percent of their AGI. In the thirteenth case, the foreign tax was almost 40 percent of AGI. In the last case, the foreign tax paid during 1976 was just over 10 percent of AGI but because of a large foreign tax credit carryover the allowable foreign tax credit exceeded 40 percent of AGI. By comparison, in 1976, only 24.6 percent of all persons with AGI of \$200,000 or over paid an effective tax rate of 50 percent or more (see Table 5).

One reason why the foreign tax credit has been considered a tax preference by many tax reformers is that foreign taxes, especially those associated with oil and gas exploration, may actually be royalty payments to foreign governments disguised as taxes. For the fourteen high-income nontaxables who were made nontaxable by use of the foreign tax credit, there is only one instance where the foreign taxes may have been disguised royalties to a foreign government. On the thirteen other returns, the foreign taxes represent legitimate tax payments to foreign governments based on income generated in foreign countries. In several of these cases, the tax filers were residents of foreign countries and either worked abroad, owned and operated businesses abroad, or had substantial income-producing properties abroad. To the extent that foreign accounting methods coincide with U.S. practices and do not "hide" income, these taxpayers, though not paying any U.S. tax, have actually paid very substantial income taxes on their worldwide income. It is not at all clear that these persons should be considered high-income nontaxables.

Conclusion

While one can deduce the reasons by which a high-income tax return can become nontaxable under present law, such theoretical analyses are not as nearly as persuasive to many people as is the evidence from actual tax returns. The actual evidence from 1976 returns indicates that the problems of high-AGI, completely nontaxable returns has been virtually eliminated. The 22 nontaxable returns represent only five one-hundredths of one percent of all high-income returns. Moreover almost two-thirds of these returns, the ones nontaxable in the United States because of large foreign tax credits, are not really nontaxable.

Thus, in 1976 there were only eight high-AGI individuals who paid no income tax. Six of these are nontaxable because of casualty losses. One return was nontaxable in large part because of extraordinarily large medical expenses. The final nontaxable return used a combination of provisions in the tax law each of which was provided for a seemingly good and equitable reason. None of the provisions were used extensively. It would be of particular interest to know whether this same taxpayer will be able to perform this feat frequently or perennially.

Chapter 7

Tax Policy Considerations

The most important conclusions reached in this year's high-income report are outlined in Chapter 2, Highlights. This chapter discusses some possible tax policy implications which may be drawn from the conclusions.

Nontaxables

Now that the number of high-income nontaxables has been reduced to a virtual handful, is it worth devoting further legislative attention to completely eliminating such tax returns? The answer to that question depends (1) on whether our data indicating virtual elimination are, indeed, correct and (2) upon the ease or difficulty in further reducing the number of high-income nontaxables.

As discussed in Chapter 3, even the broader expanded income measure used in this report is not as comprehensive as economic income because expanded income omits all sources of income which cannot be identified from tax returns. Tax returns simply do not provide information about several sources of income which are of importance to high-income taxpayers such as tax-exempt state and local bond interest and the income sheltered by straight-line depreciation of real estate in excess of economic depreciation. In order to get a better measure of tax rates of high-income individuals and the true number of high-income nontaxables, more data on the amounts of, and distributions of, these income sources are needed.

It would be relatively simple to reduce further the number of nontaxables as measured by expanded income. Complete elimination could be accomplished by including casualty losses and medical expenses in the excess itemized deduction preference subject to the minimum tax and by setting some limit on the share or amount of United States income taxes which could be offset by the credit for foreign tax payments. Both of these changes raise serious question of equity. Is it appropriate to disallow foreign taxes as a

credit against U.S. taxes? Should people whose extraordinary and unavoidable expenses have effectively reduced their taxable incomes to zero be made subject to tax?

Nearly Nontaxables

The minimum tax has been extremely important in substantially reducing the number of high-income nontaxables. However, its effect has been to create an equivalent number of nearly nontaxables. In this manner, the minimum tax obscures the numbers of, and the problems of, individuals with very large incomes who do not pay their "fair share" of tax liabilities. For those who worry about high-income individuals bearing an appropriate share of the tax burden, the focus of attention now must move from the nontaxables, who have almost disappeared, to the nearly nontaxables whose numbers are still substantial.

When the attention of the Treasury Department and the Congress first focused on high-income nontaxables late in the 1960's, there were fewer than 300 nontaxables with adjusted gross income of \$200,000 or over. In 1976, even with the virtual elimination of high-income nontaxables, there are approximately 500 nontaxables and nearly nontaxables with income, however defined, of \$200,000 or over. These 500 people did not carry a fair share of the tax burden. The effective tax rates paid in 1976 by the high-income nontaxables and nearly nontaxables together was 6.3 percent. For the similar high AGI group, the effective tax rate was only 5.2 percent. In the same year, 1976, Statistics of Income data show that the effective tax rate for taxpayers with AGI between \$6,000 and \$8,000 was 6.2 percent. Between \$8,000 and \$10,000 of AGI, the effective rate was 8.2 percent. In 1976, a four-person family only had to have had an AGI of \$11,500 or more (which was below median family income) to have had an effective tax rate of 8.2 percent. Thus, the nearly nontaxables had lower effective tax rates than typical, middle-income and lower middle-income taxpayers. Again, this suggests that attention must be focused on the high-income nearly nontaxables, who have so far escaped serious scrutiny.

Foreign tax credits

Should individuals who are nontaxable because of the foreign tax credit and who actually paid substantial foreign taxes be considered nontaxable for purposes of these

analyses? If the U.S. tax return of a U.S. resident or citizen must include worldwide income of that individual, it seems only proper to give that person credit for his worldwide income tax payments, whether made to the U.S. or to a foreign government. Eliminating such returns from the analyses would considerably reduce the remaining number of high-income nontaxables. It would also focus attention more sharply on those remaining high-income nontaxables who do not pay any income tax.

Perennial Tax Avoiders

A final item of significance concerns the level of taxes for the nontaxables and nearly nontaxables over periods of several years. Are these people taxable or nearly nontaxable for a single year that is preceeded and followed by years in which they pay substantial taxes, or are the same people nontaxable and nearly nontaxable, year in and year out? The existence of perennial nontaxables or nearly nontaxables would be much more indicative of a fundamental problem in the tax system than would the existence of a few high-income individuals who pay little or no tax in one year because of unusual circumstances but who pay substantial taxes in most other years. This is a fruitful subject for future analysis. The Treasury Department will begin a project to examine the returns of high-income nontaxables and nearly nontaxables for a period of several years.

Appendix A

1976 Data

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Table 76-1

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1976

Aggregate Data
(\$ in thousands)

	:	:	:	:
	All	Nontaxable	Nearly	All Other
	Returns	Returns	Nontaxable	Taxable
	Returns	Returns	Returns	Returns
INCOME, PER CONCEPT	\$ 22,164,488	\$ 31,188	\$ 241,240	\$ 21,892,060
EXPANDED INCOME	22,164,488	31,188	241,240	21,892,060
AGI PLUS PREFERENCES	22,674,237	34,529	259,279	22,380,429
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	16,844,148	14,720	148,199	16,681,229
Investment Interest < Investment Income <u>1/</u>	509,749	3,341	18,039	488,368
Tax Preferences	5,330,679	16,712	93,411	5,220,557
Excluded Long-Term Capital Gains	3,930,427	15,546	73,519	3,841,361
Dividend Exclusion	7,721	10	47	7,664
Other Tax Preferences <u>2/</u>	1,392,532	1,156	19,845	1,371,531
ADJUSTED GROSS INCOME	17,373,180	20,967	172,456	17,179,758
Deficits	- 29,623	-3,149	- 6,588	- 19,885
AGI of Returns with AGI > 0	17,343,557	17,817	165,868	17,159,872
Exemptions	142,169	217	1,076	140,876
Standard Deductions	3,182	2	16	3,164
Itemized Deductions	3,718,477	51,739	110,560	3,556,178
Charitable Contributions	1,317,871	30,478	37,656	1,249,737
Interest: Total	657,830	5,488	23,093	629,249
Home Mortgage	92,967	369	1,683	90,915
Invest. Interest < Invest. Income <u>3/</u>	499,410	3,097	17,669	478,644
Invest. Interest > Invest. Income <u>4/</u>	65,453	2,022	3,741	59,690
Medical	43,887	163	1,914	41,811
Casualty	29,368	7,040	2,856	19,472
Tax Expense	1,272,625	1,458	20,786	1,250,382
Miscellaneous Deductions	396,896	7,113	24,255	365,528
Excess of Exemptions & Deductions over AGI	56,175	35,987	3,256	16,932
Taxable Income	13,565,528	4,995	64,060	13,496,472
Tax at Normal Rates	8,086,288	3,158	38,231	8,044,899
Saving from Alternative Tax <u>5/</u>	48,161	0	138	48,022
Saving from Maximum Tax <u>5/</u>	472,160	176	2,006	469,978
Saving from Income Averaging	145,030	10	1,621	143,399
Tax Before Credits	7,431,261	2,973	34,465	7,393,823
Tax Credits	201,963	2,974	30,849	168,140
Foreign Tax Credit	74,646	2,954	28,378	43,314
Investment Credit	126,693	20	2,456	124,217
All Other Credits <u>6/</u>	624	0	15	609
Tax After Credits	7,229,298	0	3,615	7,225,683
Minimum Tax	537,737	0	13,513	524,225
Total Income Tax	7,767,036	0	17,128	7,749,908
Deduction Equivalent of Tax Credits <u>7/</u>	313,927	4,726	48,750	260,450
Taxable Income which would yield: <u>8/</u>	12,600,806	4,726	58,099	12,537,981
Income Tax before Credits	12,286,879	0	9,349	12,277,531
Income Tax after Credits	13,133,143	0	33,524	13,099,619
Total Income Tax				
Number of Tax Returns Represented in the tabulation	53,587	89	393	53,105

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Office of Tax Analysis

July 24, 1978

See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-2

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1976

As Percentages of Expanded Income

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	100.0	100.0	100.0	100.0
AGI PLUS PREFERENCES	102.3	110.7	107.5	102.2
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	76.0	47.2	61.4	76.2
Investment Interest < Investment Income <u>1/</u>	2.3	10.7	7.5	2.2
Tax Preferences	24.0	53.6	38.7	23.8
Excluded Long-Term Capital Gains	17.7	49.8	30.5	17.6
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	6.3	3.7	8.2	6.3
ADJUSTED GROSS INCOME	78.4	67.2	71.5	78.5
Deficits	- 0.1	-10.1	- 2.7	- 0.1
AGI of Returns with AGI > 0	72.3	57.1	68.8	78.4
Exemptions	0.6	0.7	0.4	0.6
Standard Deductions	*	*	*	*
Itemized Deductions	16.8	165.9	45.8	16.2
Charitable Contributions	6.0	97.7	15.6	5.7
Interest: Total	3.0	17.6	9.6	2.9
Home Mortgage	0.4	1.2	0.7	0.4
Invest. Interest < Invest. Income <u>3/</u>	2.2	9.9	7.3	2.2
Invest. Interest > Invest. Income <u>4/</u>	0.3	6.5	1.6	0.3
Medical	0.2	0.5	0.8	0.2
Casualty	0.1	22.6	1.2	0.1
Tax Expense	5.7	4.7	8.6	5.7
Miscellaneous Deductions	1.8	22.8	10.0	1.7
Excess of Exemptions & Deductions over AGI	0.2	115.4	1.4	0.1
Taxable Income	61.2	16.0	26.6	61.6
Tax at Normal Rates	36.5	10.1	15.8	36.8
Saving from Alternative Tax <u>5/</u>	0.2	0	0.1	0.2
Saving from Maximum Tax <u>5/</u>	2.1	0.6	0.8	2.2
Saving from Income Averaging	0.6	*	0.7	0.7
Tax Before Credits	33.5	9.5	14.3	33.8
Tax Credits	0.9	9.5	12.8	0.8
Foreign Tax Credit	0.3	9.5	11.8	0.2
Investment Credit	0.6	0.1	1.0	0.6
All Other Credits <u>6/</u>	*	0	*	*
Tax After Credits	32.6	0	1.5	33.0
Minimum Tax	2.4	0	5.6	2.4
Total Income Tax	35.0	0	7.1	35.4
Deduction Equivalent of Tax Credits <u>7/</u>	1.4	15.2	20.2	1.2
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	56.8	15.2	24.1	57.3
Income Tax after Credits	55.4	0	3.9	56.1
Total Income Tax	59.2	0	13.9	59.8
Number of Tax Returns Represented in the tabulation	53,587	89	393	53,105

Office of the Secretary of the Treasury
Office of Tax Analysis

July 24, 1978

See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income

* Less than 0.05 percent.

Table 76-2

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1976

Aggregate Data
(\$ in thousands)

	:	:	:	:
	: All	: Nontaxable	: Nearly	: All Other
	: Returns	: Returns	: Returns	: Taxable
	:	:	:	: Returns
INCOME, PER CONCEPT	\$ 15,731,871	\$ 23,287	\$ 217,952	\$ 15,490,632
EXPANDED INCOME	18,903,111	16,508	162,213	18,724,390
AGI PLUS PREFERENCES	19,440,638	25,321	234,143	19,181,175
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	15,206,989	14,854	148,175	15,043,959
Investment Interest < Investment Income <u>1/</u>	524,882	8,433	69,777	446,673
Tax Preferences	3,708,767	2,034	16,191	3,690,543
Excluded Long-Term Capital Gains	2,784,160	1,964	11,047	2,771,150
Dividend Exclusion	6,134	8	56	6,070
Other Tax Preferences <u>2/</u>	918,473	63	5,088	913,323
ADJUSTED GROSS INCOME	15,731,871	23,287	217,952	15,490,632
Deficits	0	0	0	0
AGI of Returns with AGI > 0	15,731,871	23,287	217,952	15,490,632
Exemptions	111,354	179	1,115	110,060
Standard Deductions	1,410	0	3	1,407
Itemized Deductions	3,428,127	27,159	173,425	3,227,542
Charitable Contributions	1,205,943	1,689	44,584	1,159,670
Interest: Total	671,146	13,222	82,915	575,009
Home Mortgage	74,096	508	1,867	71,720
Invest. Interest < Invest. Income <u>3/</u>	524,882	8,433	69,777	446,673
Invest. Interest > Invest. Income <u>4/</u>	72,168	4,280	11,272	56,616
Medical	37,243	226	2,497	34,519
Casualty	22,489	3,695	1,103	17,692
Tax Expense	1,138,616	1,444	19,178	1,117,994
Miscellaneous Deductions	352,691	6,884	23,148	322,659
Excess of Exemptions & Deductions over AGI	22,501	9,202	6,865	6,434
Taxable Income	12,213,481	5,151	50,274	12,158,056
Tax at Normal Rates	7,414,525	3,217	29,499	7,381,809
Saving from Alternative Tax <u>5/</u>	39,311	0	63	39,248
Saving from Maximum Tax <u>5/</u>	467,235	176	1,975	465,085
Saving from Income Averaging	100,073	28	790	99,254
Tax Before Credits	6,816,240	3,015	26,677	6,786,549
Tax Credits	170,890	3,015	22,774	145,100
Foreign Tax Credit	66,856	2,954	21,301	42,601
Investment Credit	103,517	61	1,471	101,985
All Other Credits <u>6/</u>	517	0	2	514
Tax After Credits	6,645,350	0	3,902	6,641,448
Minimum Tax	356,145	0	8,739	347,406
Total Income Tax	7,001,496	0	12,641	6,988,855
Deduction Equivalent of Tax Credits <u>7/</u>	253,958	4,847	35,573	213,538
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	11,341,035	4,847	45,901	11,290,287
Income Tax after Credits	11,087,077	0	10,328	11,076,749
Total Income Tax	11,615,200	0	27,703	11,587,497
Number of Tax Returns Represented in the tabulation	41,761	68	411	41,282

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-4

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1976

As Percentages of Adjusted Gross Income

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0%	100.0 %
EXPANDED INCOME	120.2	70.9	74.4	120.9
AGI PLUS PREFERENCES	123.6	108.7	107.4	123.8
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	96.7	63.8	68.0	97.1
Investment Interest < Investment Income <u>1/</u>	3.3	36.2	32.0	2.9
Tax Preferences	23.6	8.7	7.4	23.8
Excluded Long-Term Capital Gains	17.7	8.4	5.1	17.9
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	5.8	0.3	2.3	5.9
ADJUSTED GROSS INCOME	100.0	100.0	100.0	100.0
Deficits	0	0	0	0
AGI of Returns with AGI > 0	100.0	100.0	100.0	100.0
Exemptions	0.7	0.8	0.5	0.7
Standard Deductions	*	0	*	*
Itemized Deductions	21.8	116.6	79.6	20.8
Charitable Contributions	7.7	7.2	20.5	7.5
Interest: Total	4.3	56.8	38.0	3.7
Home Mortgage	0.5	2.2	0.9	0.5
Invest. Interest < Invest. Income <u>3/</u>	3.3	36.2	32.0	2.9
Invest. Interest > Invest. Income <u>4/</u>	0.5	18.4	5.2	0.4
Medical	0.2	1.0	1.2	0.2
Casualty	0.1	15.9	0.5	0.1
Tax Expense	7.2	6.2	8.8	7.2
Miscellaneous Deductions	2.2	29.6	10.6	2.1
Excess of Exemptions & Deductions over AGI	0.1	39.5	3.2	*
Taxable Income	77.6	22.1	23.1	78.5
Tax at Normal Rates	47.1	13.8	13.5	47.6
Saving from Alternative Tax <u>5/</u>	0.2	0	*	0.2
Saving from Maximum Tax <u>5/</u>	3.0	0.8	0.9	3.0
Saving from Income Averaging	0.6	0.1	0.4	0.6
Tax Before Credits	43.3	13.0	12.2	43.8
Tax Credits	1.1	13.0	10.4	0.9
Foreign Tax Credit	0.4	12.7	9.8	0.3
Investment Credit	0.7	0.3	0.7	0.7
All Other Credits <u>6/</u>	*	0	*	*
Tax After Credits	42.2	0	1.8	42.9
Minimum Tax	2.3	0	4.0	2.2
Total Income Tax	44.5	0	5.8	45.2
Deduction Equivalent of Tax Credits <u>7/</u>	1.6	20.8	16.3	1.4
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	72.1	20.8	21.1	72.9
Income Tax after Credits	70.5	0	4.7	71.5
Total Income Tax	73.8	0	12.7	74.8
Number of Tax Returns Represented in the tabulation	41,761	68	411	41,282

Office of the Secretary of the Treasury
Office of Tax Analysis

July 24, 1978

See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

* Less than 0.05 percent.

Table 76-5

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1976

Aggregate Data
(\$ in thousands)

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	\$ 23,332,268	\$ 42,198	\$ 556,613	\$ 22,733,457
EXPANDED INCOME	22,683,261	32,922	424,736	22,225,603
AGI PLUS PREFERENCES	23,332,268	42,198	556,613	22,733,457
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	17,252,819	16,051	251,902	16,984,866
Investment Interest < Investment Income <u>1/</u>	649,007	9,276	131,877	507,854
Tax Preferences	5,445,035	17,251	177,251	5,250,532
Excluded Long-Term Capital Gains	4,021,577	16,019	139,048	3,866,510
Dividend Exclusion	8,167	14	124	8,029
Other Tax Preferences <u>2/</u>	1,415,291	1,218	38,080	1,275,993
ADJUSTED GROSS INCOME	17,916,857	28,097	385,950	17,502,810
Deficits	- 29,623	-3,149	- 6,588	- 19,885
AGI of Returns with AGI > 0	17,887,233	24,947	379,362	17,482,924
Exemptions	150,599	291	2,486	147,822
Standard Deductions	3,182	2	16	3,164
Itemized Deductions	3,968,676	61,323	310,792	3,596,561
Charitable Contributions	1,351,366	30,904	72,732	1,247,730
Interest: Total	814,716	13,699	149,383	651,635
Home Mortgage	100,504	522	4,512	95,470
Invest. Interest < Invest. Income <u>3/</u>	634,415	8,896	127,460	498,059
Invest. Interest > Invest. Income <u>4/</u>	79,798	4,280	17,411	58,106
Medical	46,255	289	3,225	42,741
Casualty	30,268	7,041	3,442	19,785
Tax Expense	1,311,517	1,911	40,353	1,269,253
Miscellaneous Deductions	414,554	7,479	41,657	365,418
Excess of Exemptions & Deductions over AGI	67,754	38,671	14,239	14,844
Taxable Income	13,862,153	5,151	86,895	13,770,107
Tax at Normal Rates	8,229,784	3,217	48,116	9,179,451
Saving from Alternative Tax <u>5/</u>	49,859	0	175	49,684
Saving from Maximum Tax <u>5/</u>	476,442	176	2,052	474,214
Saving from Income Averaging	148,258	28	3,452	144,778
Tax Before Credits	7,565,917	3,015	42,447	7,520,456
Tax Credits	206,853	3,015	34,437	169,402
Foreign Tax Credit	75,802	2,954	29,510	43,339
Investment Credit	130,371	61	4,907	125,403
All Other Credits <u>6/</u>	680	0	20	660
Tax After Credits	7,359,064	0	8,011	7,351,054
Minimum Tax	552,240	0	32,883	519,357
Total Income Tax	7,911,305	0	40,894	7,870,411
Deduction Equivalent of Tax Credits <u>7/</u>	323,376	4,847	56,669	261,860
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	12,882,439	4,847	77,456	12,800,136
Income Tax after Credits	12,559,063	0	20,787	12,538,276
Total Income Tax	13,437,036	0	81,874	13,355,162
Number of Tax Returns Represented in the tabulation	56,512	114	919	55,479

Office of the Secretary of the Treasury
Office of Tax Analysis

July 24, 1978

See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-6

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1976

As Percentages of Adjusted Gross Income Plus Preferences

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	97.2	78.0	76.3	97.8
AGI PLUS PREFERENCES	100.0	100.0	100.0	100.0
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	73.9	38.0	45.3	74.7
Investment Interest < Investment Income <u>1/</u>	2.8	22.0	23.7	2.2
Tax Preferences	23.3	40.9	31.8	23.1
Excluded Long-Term Capital Gains	17.2	38.0	25.0	17.0
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	6.1	2.9	6.8	6.0
ADJUSTED GROSS INCOME	76.8	66.6	69.3	77.0
Deficits	- 0.1	- 7.5	- 1.2	- 0.1
AGI of Returns with AGI > 0	76.7	59.1	68.2	76.9
Exemptions	0.6	0.7	0.4	0.6
Standard Deductions	*	*	*	*
Itemized Deductions	17.0	145.3	55.8	15.8
Charitable Contributions	5.8	73.2	13.1	5.5
Interest: Total	3.5	32.5	26.8	2.9
Home Mortgage	*	1.2	0.8	0.4
Invest. Interest < Invest. Income <u>3/</u>	2.7	21.1	22.9	2.2
Invest. Interest > Invest. Income <u>4/</u>	*	10.1	3.1	0.3
Medical	*	0.7	0.6	0.2
Casualty	*	16.7	0.6	0.1
Tax Expense	5.6	4.5	7.2	5.6
Miscellaneous Deductions	1.8	17.7	7.5	1.6
Excess of Exemptions & Deductions over AGI	0.3	91.6	2.6	0.1
Taxable Income	59.4	12.2	15.6	60.6
Tax at Normal Rates	35.3	7.6	8.6	36.0
Saving from Alternative Tax <u>5/</u>	0.2	0	*	0.2
Saving from Maximum Tax <u>5/</u>	2.0	0.4	0.4	2.1
Saving from Income Averaging	0.6	0.1	0.6	0.6
Tax Before Credits	32.4	7.1	7.6	33.1
Tax Credits	0.9	7.1	6.2	0.8
Foreign Tax Credit	0.3	7.0	5.3	0.2
Investment Credit	0.6	0.1	0.9	0.6
All Other Credits <u>6/</u>	*	0	*	*
Tax After Credits	31.5	0	1.4	32.3
Minimum Tax	2.4	0	5.9	2.3
Total Income Tax	33.9	0	7.4	34.6
Deduction Equivalent of Tax Credits <u>7/</u>	1.4	11.5	10.2	1.2
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	55.2	11.5	13.9	56.3
Income Tax after Credits	53.8	0	3.7	55.2
Total Income Tax	57.6	0	14.7	58.8
Number of Tax Returns Represented in the tabulation	56,512	114	919	55,479

Office of the Secretary of the Treasury
Office of Tax Analysis

July 24, 1978

See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

* Less than 0.05 percent.

Table 76-7

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1976

Aggregate Data
(\$ in thousands)

	:	:	:	:
	All	Nontaxable	Nearly	All Other
	Returns	Returns	Nontaxable	Taxable
	Returns	Returns	Returns	Returns
INCOME, PER CONCEPT	\$ 14,793,632	\$ 13,507	\$ 86,059	\$ 14,694,066
EXPANDED INCOME	18,360,566	14,204	89,854	18,256,508
AGI PLUS PREFERENCES	18,752,424	16,352	96,302	18,639,770
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	14,793,632	13,507	86,059	14,694,066
Investment Interest < Investment Income <u>1/</u>	382,212	1,985	6,122	374,106
Tax Preferences	3,576,580	860	4,121	3,571,599
Excluded Long-Term Capital Gains	2,682,455	857	2,403	2,679,194
Dividend Exclusion	5,753	3	21	5,729
Other Tax Preferences <u>2/</u>	888,372	0	1,697	886,676
ADJUSTED GROSS INCOME	15,175,844	15,492	92,181	15,068,171
Deficits	0	0	0	0
AGI of Returns with AGI > 0	15,175,844	15,492	92,181	15,068,171
Exemptions	104,624	98	475	104,051
Standard Deductions	1,410	0	3	1,407
Itemized Deductions	3,163,075	16,837	53,622	3,092,616
Charitable Contributions	1,167,757	1,261	18,868	1,147,628
Interest: Total	510,244	4,282	9,468	496,494
Home Mortgage	68,301	355	448	67,498
Invest. Interest < Invest. Income <u>3/</u>	382,212	1,985	6,122	374,106
Invest. Interest > Invest. Income <u>4/</u>	59,731	1,942	2,898	54,891
Medical	35,036	100	1,543	33,393
Casualty	20,144	3,693	1,016	15,436
Tax Expense	1,097,504	983	9,012	1,087,509
Miscellaneous Deductions	332,389	6,518	13,716	312,155
Excess of Exemptions & Deductions over AGI	12,210	6,438	829	4,943
Taxable Income	11,918,947	4,995	38,911	11,875,041
Tax at Normal Rates	7,264,768	3,158	24,305	7,237,304
Saving from Alternative Tax <u>5/</u>	37,723	0	33	37,690
Saving from Maximum Tax <u>5/</u>	461,810	176	1,900	459,733
Saving from Income Averaging	96,852	10	216	96,626
Tax Before Credits	6,676,197	2,973	22,156	6,651,067
Tax Credits	165,023	2,974	20,537	141,513
Foreign Tax Credit	65,009	2,954	19,938	42,118
Investment Credit	99,554	20	599	98,935
All Other Credits <u>6/</u>	460	0	0	460
Tax After Credits	6,511,173	0	1,619	6,509,555
Minimum Tax	337,624	0	2,283	335,341
Total Income Tax	6,848,797	0	3,901	6,844,896
Deduction Equivalent of Tax Credits <u>7/</u>	243,415	4,726	31,324	207,368
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	11,062,050	4,726	35,725	11,021,600
Income Tax after Credits	10,818,635	0	4,401	10,814,232
Total Income Tax	11,312,105	0	9,120	11,302,985
Number of Tax Returns Represented in the tabulation	39,346	42	178	39,126

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Office of Tax Analysis

July 24, 1978

See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

Table 76-8

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1976

As Percentages of Adjusted Gross Income minus Investment Interest

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	124.1	105.2	104.4	124.2
AGI PLUS PREFERENCES	126.8	121.1	111.9	126.8
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	100.0	100.0	100.0	100.0
Investment Interest < Investment Income <u>1/</u>	2.6	14.7	7.1	2.6
Tax Preferences	24.2	6.4	4.8	24.3
Excluded Long-Term Capital Gains	18.1	6.3	2.8	18.2
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	6.0	0	2.0	6.0
ADJUSTED GROSS INCOME	102.6	114.7	107.1	102.6
Deficits	0	0	0	0
AGI of Returns with AGI > 0	102.6	114.7	107.1	102.6
Exemptions	0.7	0.7	0.6	0.7
Standard Deductions	*	0	*	*
Itemized Deductions	21.4	124.6	62.3	21.0
Charitable Contributions	7.9	9.3	21.9	7.8
Interest: Total	3.4	31.7	11.0	3.4
Home Mortgage	0.5	2.6	0.5	0.5
Invest. Interest < Invest. Income <u>3/</u>	2.6	14.7	7.1	2.6
Invest. Interest > Invest. Income <u>4/</u>	0.4	14.4	3.4	0.4
Medical	0.2	0.7	1.8	0.2
Casualty	0.1	27.3	1.2	0.1
Tax Expense	7.4	7.3	10.5	7.4
Miscellaneous Deductions	2.2	48.3	15.9	2.1
Excess of Exemptions & Deductions over AGI	0.1	47.7	1.0	*
Taxable Income	80.6	37.0	45.2	80.8
Tax at Normal Rates	49.1	23.4	28.2	49.2
Saving from Alternative Tax <u>5/</u>	0.2	0	*	0.3
Saving from Maximum Tax <u>5/</u>	3.1	1.3	2.2	3.1
Saving from Income Averaging	0.6	0.1	0.2	0.7
Tax Before Credits	45.1	22.0	25.8	45.3
Tax Credits	1.1	22.0	23.9	1.0
Foreign Tax Credit	0.4	21.9	23.2	0.3
Investment Credit	0.7	0.2	0.7	0.7
All Other Credits <u>6/</u>	*	0	0	*
Tax After Credits	44.0	0	1.9	44.3
Minimum Tax	2.3	0	2.6	2.3
Total Income Tax	46.3	0	4.5	46.6
Deduction Equivalent of Tax Credits <u>7/</u>	1.6	35.0	36.4	1.4
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	74.8	35.0	41.5	75.0
Income Tax after Credits	73.1	0	5.1	73.6
Total Income Tax	76.5	0	10.6	76.9
Number of Tax Returns Represented in the tabulation	39,346	42	178	39,126

Office of the Secretary of the Treasury
Office of Tax Analysis

July 24, 1978

See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1976 Statistics of Income.

* Less than 0.05 percent.

Uniform Footnotes for Tables in Appendices A, B, and C

1. Investment interest not in excess of investment income. Investment interest is defined as total interest paid less mortgage interest. Investment income consists of dividends (before the \$100 exclusion), interest, and realized capital gains (including the exceeded portion of long-term capital gains).
2. The amount of percentage depletion in excess of the adjusted basis of the property. The excess of accelerated over straight-line depreciation on low income rental housing, on other real property, and on personal property subject to a net lease. Rapid amortization deductions in excess of otherwise allowable depreciation for certified pollution control facilities, railroad rolling stock, and on-the-job training and child care facilities.
3. Investment interest not in excess of investment income. Investment interest is defined as total interest paid less mortgage interest. Investment income consists of dividends (net of the \$100 exclusion), interest, and realized capital gains after deducting the excluded portion of long-term capital gains. This definition differs from the definition in footnote 1 because the excluded portion of long-term capital gains and the dividend exclusion are omitted from AGI whereas they are included in expanded income.
4. Investment interest in excess of investment income. Investment interest (as defined in footnote 3) in excess of the the amount allowed as investment interest not in excess of investment income.
5. Savings from the alternative tax or the minimum tax on earned income are included on the appropriate line even if the taxpayer foregoes them in order to calculate his tax liability under the income averaging procedure.
6. All other credits include the child care credit, the credit for contributions to candidates for public offices, the retirement income credit or the credit for the elderly (depending on the year), the work incentive (WIN) credit, the credit for purchase of a new residence, and the earned income credit. The general tax credit not included.

7. The deduction equivalent of tax credits is calculated in order to allow the relative importance of deductions and credits to be compared. The deduction equivalent is defined as the difference between the taxable income which would yield tax before credits and the taxable income which would yield tax after credits.
8. The amount of income which taxed under the appropriate ordinary tax rate schedule would yield tax after credits plus the minimum tax. For purposes of this computation, the general tax credits available in 1975 and 1976 have been ignored.

Office of the Secretary of the Treasury
Office of Tax Analysis

August 25, 1978

Table 76-9

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts

--All Returns, 1976

	:	:	Less Than	:	\$50,000 to	:	\$100,000 to	:	\$200,000	:	\$200,000
	:	Total	:	\$50,000	:	\$100,000	:	\$200,000	:	and over	:
<hr/>											
<u>Expanded Income</u>											
-----Adjusted Gross Income-----											
Total		84,670,389		83,495,452		948,034		185,142		41,761	
Less than \$ 50,000		83,408,673		83,389,317		19,149		193		14	
\$ 50,000 to \$100,000		1,003,851		103,478		894,752		5,597		24	
\$100,000 to \$200,000		204,278		2,058		33,287		167,745		1,188	
\$200,000 and over		53,587		599		846		11,607		40,535	
<u>Expanded Income</u>											
-----Adjusted Gross Income plus Preferences-----											
Total		84,670,389		83,379,625		1,021,791		212,461		56,512	
Less than \$ 50,000		83,408,673		83,379,625		28,822		195		31	
\$ 50,000 to \$100,000		1,003,851				992,969		10,858		24	
\$100,000 to \$200,000		204,278						201,408		2,870	
\$200,000 and over		53,587								53,587	
<u>Expanded Income</u>											
-----Adjusted Gross Income minus Investment Interest-----											
Total		84,670,389		83,528,276		925,833		176,934		39,346	
Less than \$ 50,000		83,408,673		83,408,673							
\$ 50,000 to \$100,000		1,003,851		116,367		887,484					
\$100,000 to \$200,000		204,278		2,529		37,337		164,412			
\$200,000 and over		53,587		707		1,012		12,522		39,346	
<u>Adjusted Gross Income</u>											
-----Adjusted Gross Income plus Preferences-----											
Total		84,670,389		83,379,625		1,021,791		212,461		56,512	
Less than \$ 50,000		83,495,452				113,100		2,120		607	
\$ 50,000 to \$100,000		948,034				908,691		38,338		1,005	
\$100,000 to \$200,000		185,142						172,003		13,139	
\$200,000 and over		41,761								41,761	
<u>Adjusted Gross Income</u>											
-----Adjusted Gross Income minus Investment Interest-----											
Total		84,670,389		83,528,276		925,833		176,934		39,346	
Less than \$ 50,000		83,495,452		83,495,452							
\$ 50,000 to \$100,000		948,034		32,460		915,574					
\$100,000 to \$200,000		185,142		326		10,160		174,656			
\$200,000 and over		41,761		38		99		2,278		39,346	
<u>Adjusted Gross Income</u>											
plus Preferences											
-----Adjusted Gross Income minus Investment Interest-----											
Total		84,670,389		83,528,276		925,833		176,934		39,346	
Less than \$ 50,000		83,379,625		83,379,625							
\$ 50,000 to \$100,000		1,021,791		144,262		877,529					
\$100,000 to \$200,000		212,461		3,560		46,828		162,073			
\$200,000 and over		56,512		829		1,476		14,861		39,346	

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July 12, 1978

Source: 1976 Statistics of Income.

Table 76-10

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts
-- Nontaxable Returns, 1976

	:	:	:	:	:	:
	Total	Less Than \$50,000	\$50,000 to \$100,000	\$100,000 to \$200,000	\$200,000 and over	
<hr/>						
<u>Expanded Income</u>	<u>-----Adjusted Gross Income-----</u>					
Total	20,249,022	20,245,282	3,180	492	68	
Less than \$ 50,000	20,244,296	20,243,890	393	3	10	
\$ 50,000 to \$100,000	4,104	1,271	2,765	64	4	
\$100,000 to \$200,000	533	109	7	406	11	
\$200,000 and over	89	12	15	19	43	
<hr/>						
<u>Expanded Income</u>	<u>-----Adjusted Gross Income plus Preferences-----</u>					
Total	20,249,022	20,243,728	4,480	700	114	
Less than \$ 50,000	20,244,296	20,243,728	554	4	10	
\$ 50,000 to \$100,000	4,104		3,926	174	4	
\$100,000 to \$200,000	533			522	11	
\$200,000 and over	89				89	
<hr/>						
<u>Expanded Income</u>	<u>-----Adjusted Gross Income minus Investment Interest-----</u>					
Total	20,249,022	20,245,824	2,721	435	42	
Less than \$ 50,000	20,244,296	20,244,296				
\$ 50,000 to \$100,000	4,104	1,405	2,699			
\$100,000 to \$200,000	533	110	7	416		
\$200,000 and over	89	13	15	19	42	
<hr/>						
<u>Adjusted Gross Income</u>	<u>-----Adjusted Gross Income plus Preferences-----</u>					
Total	20,249,022	20,243,728	4,480	700	114	
Less than \$ 50,000	20,245,282	20,243,728	1,432	110	12	
\$ 50,000 to \$100,000	3,180		3,048	117	15	
\$100,000 to \$200,000	492			473	19	
\$200,000 and over	68				68	
<hr/>						
<u>Adjusted Gross Income</u>	<u>-----Adjusted Gross Income minus Investment Interest-----</u>					
Total	20,249,022	20,245,824	2,721	435	42	
Less than \$ 50,000	20,245,282	20,245,282				
\$ 50,000 to \$100,000	3,180	504	2,676			
\$100,000 to \$200,000	492	27	40	425		
\$200,000 and over	68	11	5	10	42	
<hr/>						
<u>Adjusted Gross Income plus Preferences</u>	<u>-----Adjusted Gross Income minus Investment Interest-----</u>					
Total	20,249,022	20,245,824	2,721	435	42	
Less than \$ 50,000	20,243,728	20,243,728				
\$ 50,000 to \$100,000	4,480	1,825	2,655			
\$100,000 to \$200,000	700	248	46	406		
\$200,000 and over	114	23	20	29	42	

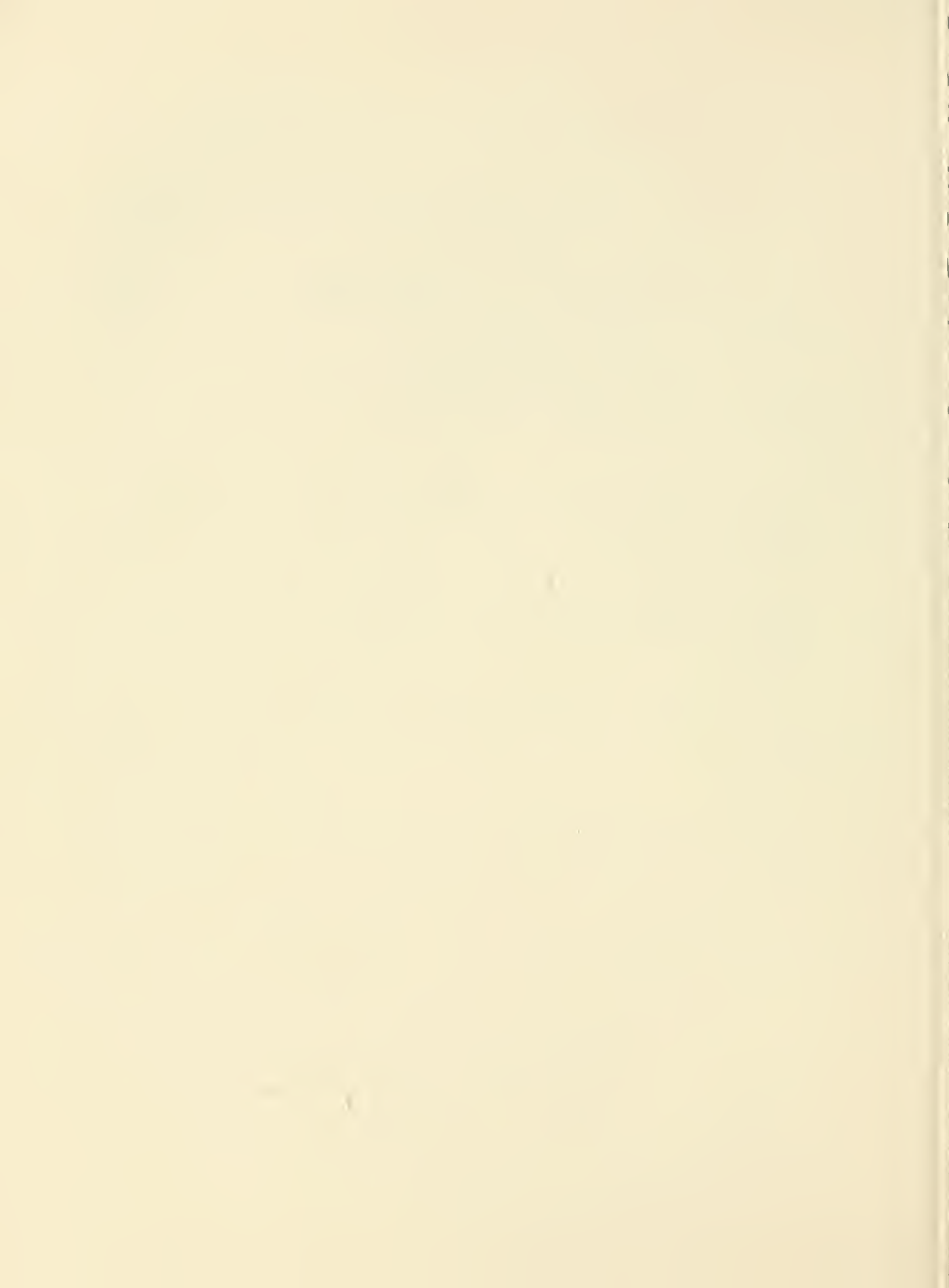
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Source: 1976 Statistics of Income

Appendix E

1975 Data



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Table 75-1

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1975

Aggregate Data
(\$ in thousands)

	All Returns	Nontaxable Returns	Nearly Nontaxable Returns	All Other Taxable Returns
INCOME, PER CONCEPT	16,852,472	81,111	824,351	15,947,009
EXPANDED INCOME	16,852,472	81,111	824,351	15,947,009
AGI PLUS PREFERENCES	17,318,131	97,916	948,605	16,271,609
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	13,161,611	44,316	356,026	12,761,269
Investment Interest < Investment Income <u>1/</u>	465,659	16,805	124,254	324,601
Tax Preferences	3,700,821	37,348	473,920	3,189,555
Excluded Long-Term Capital Gains	3,097,209	34,850	389,018	2,673,342
Dividend Exclusion	5,913	26	207	5,681
Other Tax Preferences <u>2/</u>	597,699	2,471	84,695	510,532
ADJUSTED GROSS INCOME	13,643,754	67,705	482,361	13,093,688
Deficits	- 26,442	- 7,134	- 7,676	- 11,631
AGI of Returns with AGI > 0	13,617,309	60,569	474,685	13,082,057
Exemptions	107,622	602	3,887	103,133
Standard Deductions	2,580	7	54	2,520
Itemized Deductions	2,975,329	74,894	383,085	2,517,350
Charitable Contributions	1,016,809	11,127	96,624	909,058
Interest: Total	594,532	31,292	148,522	414,717
Home Mortgage	61,658	664	6,585	54,408
Invest. Interest < Invest. Income <u>3/</u>	455,699	16,253	118,659	320,787
Invest. Interest > Invest. Income <u>4/</u>	77,175	14,375	23,278	39,523
Medical	31,147	401	2,997	27,750
Casualty	24,052	7,772	3,530	12,750
Tax Expense	969,228	8,228	54,813	906,186
Miscellaneous Deductions	339,561	16,074	76,599	246,889
Excess of Exemptions & Deductions over AGI	31,897	15,102	14,266	2,530
Taxable Income	10,590,121	7,305	109,602	10,473,215
Tax at Normal Rates	6,340,213	4,317	57,188	6,278,708
Saving from Alternative Tax <u>5/</u>	31,149	12	164	30,973
Saving from Maximum Tax <u>5/</u>	334,153	180	1,050	332,923
Saving from Income Averaging	123,664	198	3,777	119,689
Tax Before Credits	5,853,658	3,926	52,194	5,797,538
Tax Credits	157,176	3,926	34,570	118,677
Foreign Tax Credit	56,069	3,681	24,894	27,494
Investment Credit	99,451	241	9,662	89,547
All Other Credits <u>6/</u>	1,656	4	14	1,636
Tax After Credits	5,696,482	0	17,621	5,678,860
Minimum Tax	109,981	0	36,632	73,348
Total Income Tax	5,806,462	0	54,254	5,752,209
Deduction Equivalent of Tax Credits <u>7/</u>	240,178	6,728	58,157	175,292
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	9,878,904	6,728	101,285	9,770,891
Income Tax after Credits	9,638,726	0	43,128	9,595,599
Total Income Tax	9,826,656	0	113,030	9,713,628
Number of Tax Returns Represented in the tabulation	40,884	215	1,409	39,260

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-2

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1975

As Percentages of Expanded Income

	: All Returns	: Nontaxable Returns	: Nearly Nontaxable Returns	: All Other Taxable Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	100.0	100.0	100.0	100.0
AGI PLUS PREFERENCES	102.8	120.7	115.1	102.0
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	78.1	54.6	43.2	80.0
Investment Interest < Investment Income <u>1/</u>	2.8	20.7	15.1	2.0
Tax Preferences	22.0	46.0	57.5	20.0
Excluded Long-Term Capital Gains	18.4	43.0	47.2	16.8
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	3.6	3.0	10.3	3.2
ADJUSTED GROSS INCOME	81.0	83.5	58.5	82.1
Deficits	- 0.2	- 8.8	- 0.9	- 0.1
AGI of Returns with AGI > 0	80.8	74.7	57.6	82.0
Exemptions	0.6	0.7	0.5	0.6
Standard Deductions	*	*	*	*
Itemized Deductions	17.7	92.3	46.5	15.8
Charitable Contributions	6.0	13.7	11.7	5.7
Interest: Total	3.5	38.6	18.0	2.6
Home Mortgage	0.4	0.8	0.8	0.3
Invest. Interest < Invest. Income <u>3/</u>	2.7	20.0	14.4	2.0
Invest. Interest > Invest. Income <u>4/</u>	0.5	17.7	2.8	0.2
Medical	0.2	0.5	0.4	0.2
Casualty	0.1	9.6	0.4	0.1
Tax Expense	5.8	10.1	6.6	5.7
Miscellaneous Deductions	2.0	19.8	9.3	1.6
Excess of Exemptions & Deductions over AGI	0.2	18.6	1.7	*
Taxable Income	62.8	9.0	13.3	65.7
Tax at Normal Rates	37.6	5.3	6.9	39.4
Saving from Alternative Tax <u>5/</u>	0.2	*	*	0.2
Saving from Maximum Tax <u>5/</u>	2.0	0.2	0.1	2.1
Saving from Income Averaging	0.7	0.2	0.5	0.8
Tax Before Credits	34.7	4.8	6.3	36.4
Tax Credits	0.9	4.8	4.2	0.7
Foreign Tax Credit	0.3	4.5	3.0	0.2
Investment Credit	0.6	0.3	1.2	0.6
All Other Credits <u>6/</u>	*	*	*	*
Tax After Credits	33.8	0	2.1	35.6
Minimum Tax	0.6	0	4.4	0.5
Total Income Tax	34.4	0	6.6	36.1
Deduction Equivalent of Tax Credits <u>7/</u>	1.4	8.3	7.0	1.1
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	58.6	8.3	12.3	61.3
Income Tax after Credits	57.2	0	5.2	60.2
Total Income Tax	58.3	0	13.7	60.9
Number of Tax Returns Represented in the tabulation	40,884	215	1,409	39,260

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-3

Income, Deductions, Credits and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or over -- 1975

Aggregate Data
(\$ in thousands)

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	12,682,728	117,100	382,812	12,182,817
EXPANDED INCOME	14,779,494	65,809	330,472	14,393,214
AGI PLUS PREFERENCES	15,326,302	124,283	467,749	14,734,271
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	12,148,688	60,027	242,992	11,845,670
Investment Interest < Investment Income <u>1/</u>	534,039	57,073	139,819	337,147
Tax Preferences	2,643,575	7,183	84,938	2,551,454
Excluded Long-Term Capital Gains	2,191,266	6,212	65,815	2,119,238
Dividend Exclusion	4,960	38	115	4,807
Other Tax Preferences <u>2/</u>	447,349	932	19,007	427,409
ADJUSTED GROSS INCOME	12,682,728	117,100	382,812	12,182,817
Deficits	0	0	0	0
AGI of Returns with AGI > 0	12,682,728	117,100	382,812	12,182,817
Exemptions	89,711	701	2,004	87,007
Standard Deductions	1,484	7	13	1,465
Itemized Deductions	2,901,840	127,044	319,771	2,455,025
Charitable Contributions	968,519	13,661	64,160	890,698
Interest: Total	681,502	80,416	172,118	428,969
Home Mortgage	54,248	1,155	4,961	48,133
Invest. Interest < Invest. Income <u>3/</u>	534,039	57,073	139,819	337,147
Invest. Interest > Invest. Income <u>4/</u>	93,216	22,187	27,340	43,690
Medical	25,238	537	1,469	23,232
Casualty	18,848	3,967	2,709	12,172
Tax Expense	891,328	10,015	32,305	849,008
Miscellaneous Deductions	316,404	18,448	47,011	250,945
Excess of Exemptions & Deductions over AGI	31,026	18,228	8,011	4,787
Taxable Income	9,720,721	7,576	69,036	9,644,108
Tax at Normal Rates	5,903,344	4,404	37,816	5,861,123
Saving from Alternative Tax <u>5/</u>	25,541	12	119	25,410
Saving from Maximum Tax <u>5/</u>	333,701	180	1,010	332,512
Saving from Income Averaging	88,003	199	1,485	86,319
Tax Before Credits	5,457,908	4,012	35,202	5,418,694
Tax Credits	141,285	4,011	24,706	112,563
Foreign Tax Credit	54,100	3,763	22,049	28,286
Investment Credit	85,859	243	2,650	82,963
All Other Credits <u>6/</u>	1,326	5	7	1,314
Tax After Credits	5,316,625	0	10,493	5,306,132
Minimum Tax	72,317	0	5,670	66,647
Total Income Tax	5,388,942	0	16,164	5,372,779
Deduction Equivalent of Tax Credits <u>7/</u>	209,927	6,984	38,244	164,700
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	9,074,719	6,984	64,758	9,002,978
Income Tax after Credits	8,864,792	0	26,514	8,838,278
Total Income Tax	8,975,907	0	38,126	8,937,781
Number of Tax Returns Represented in the tabulation	33,606	260	732	32,614

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-4

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or over -- 1975

As Percentages of Adjusted Gross Income

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	116.5	56.2	83.7	118.1
AGI PLUS PREFERENCES	120.8	106.1	122.2	120.9
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	95.8	51.3	63.5	97.2
Investment Interest < Investment Income <u>1/</u>	4.2	48.7	36.5	2.8
Tax Preferences	20.8	6.1	22.2	20.9
Excluded Long-Term Capital Gains	17.3	5.3	17.2	17.4
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	3.5	0.8	5.0	3.5
ADJUSTED GROSS INCOME	100.0	100.0	100.0	100.0
Deficits	0	0	0	0
AGI of Returns with AGI > 0	100.0	100.0	100.0	100.0
Exemptions	0.7	0.6	0.5	0.7
Standard Deductions	*	*	*	*
Itemized Deductions	22.9	108.5	83.5	20.2
Charitable Contributions	7.6	11.7	16.8	7.3
Interest: Total	5.4	68.7	45.0	3.5
Home Mortgage	0.4	1.0	1.3	0.4
Invest. Interest < Invest. Income <u>3/</u>	4.2	48.7	36.5	2.8
Invest. Interest > Invest. Income <u>4/</u>	0.7	19.0	7.1	0.4
Medical	0.2	0.5	0.4	0.2
Casualty	0.2	3.4	0.7	0.1
Tax Expense	7.0	8.6	8.4	7.0
Miscellaneous Deductions	2.5	15.8	12.3	2.1
Excess of Exemptions & Deductions over AGI	0.2	15.6	2.1	*
Taxable Income	76.6	6.5	18.0	79.2
Tax at Normal Rates	46.6	3.8	9.9	48.1
Saving from Alternative Tax <u>5/</u>	0.2	*	*	0.2
Saving from Maximum Tax <u>5/</u>	2.6	0.2	0.3	2.7
Saving from Income Averaging	0.7	0.2	0.4	0.7
Tax Before Credits	43.0	3.4	9.2	44.5
Tax Credits	1.1	3.4	6.4	0.9
Foreign Tax Credit	0.4	3.2	5.8	0.2
Investment Credit	0.7	0.2	0.7	0.7
All Other Credits <u>6/</u>	*	*	*	*
Tax After Credits	41.9	0	2.7	43.6
Minimum Tax	0.6	0	1.5	0.6
Total Income Tax	42.5	0	4.2	44.1
Deduction Equivalent of Tax Credits <u>7/</u>	1.7	6.0	10.0	1.4
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	71.6	6.0	16.9	73.9
Income Tax after Credits	69.9	0	6.9	72.6
Total Income Tax	70.8	0	10.0	73.4
Number of Tax Returns Represented in the tabulation	33,606	260	732	32,614

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-5

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1975

Aggregate Data
(\$ in thousands)

	:	:	:	:
	All	Nontaxable	Nearly	All Other
	Returns	Returns	Nontaxable	Taxable
	Returns	Returns	Returns	Returns
INCOME, PER CONCEPT	17,912,101	157,876	1,244,343	16,509,882
EXPANDED INCOME	17,269,318	95,631	1,009,540	16,164,146
AGI PLUS PREFERENCES	17,912,101	157,876	1,244,343	16,509,882
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	13,495,332	55,208	451,660	12,988,464
Investment Interest < Investment Income <u>1/</u>	642,783	62,244	234,803	345,735
Tax Preferences	3,788,730	41,891	566,594	3,180,245
Excluded Long-Term Capital Gains	3,171,700	38,764	463,354	2,669,580
Dividend Exclusion	6,289	50	327	5,913
Other Tax Preferences <u>2/</u>	610,742	3,077	102,912	504,753
ADJUSTED GROSS INCOME	14,149,815	123,119	685,426	13,341,267
Deficits	- 26,442	- 7,134	- 7,676	- 11,631
AGI of Returns with AGI > 0	14,123,370	115,985	677,750	13,329,636
Exemptions	114,493	1,045	6,272	107,178
Standard Deductions	2,580	7	54	2,520
Itemized Deductions	3,262,745	138,332	558,265	2,566,148
Charitable Contributions	1,049,761	14,177	121,390	914,194
Interest: Total	793,069	84,462	268,185	440,422
Home Mortgage	67,649	1,341	9,932	56,376
Invest. Interest < Invest. Income <u>3/</u>	628,038	60,777	226,089	341,173
Invest. Interest > Invest. Income <u>4/</u>	97,383	22,344	32,164	42,875
Medical	33,087	556	3,869	28,662
Casualty	25,526	8,121	4,151	13,254
Tax Expense	1,002,517	11,228	70,508	920,781
Miscellaneous Deductions	358,785	19,788	90,162	248,836
Excess of Exemptions & Deductions over AGI	47,765	24,107	22,265	1,393
Taxable Income	10,817,759	7,844	143,100	10,666,815
Tax at Normal Rates	6,450,171	4,468	70,786	6,374,917
Saving from Alternative Tax <u>5/</u>	32,163	12	219	31,932
Saving from Maximum Tax <u>5/</u>	337,674	180	1,078	336,416
Saving from Income Averaging	125,692	199	4,746	120,748
Tax Before Credits	5,957,059	4,076	64,741	5,888,242
Tax Credits	160,997	4,075	37,601	119,319
Foreign Tax Credit	57,658	3,763	26,222	27,674
Investment Credit	101,621	307	11,361	89,951
All Other Credits <u>6/</u>	1,718	5	18	1,694
Tax After Credits	5,796,062	0	27,140	5,768,923
Minimum Tax	112,677	0	42,360	70,318
Total Income Tax	5,908,739	0	69,500	5,839,240
Deduction Equivalent of Tax Credits <u>7/</u>	248,051	7,241	64,469	176,342
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	10,095,744	7,241	132,697	9,955,807
Income Tax after Credits	9,847,693	0	68,228	9,779,465
Total Income Tax	10,043,925	0	152,685	9,891,241
Number of Tax Returns Represented in the tabulation	43,344	362	2,257	40,725

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-6

Income, Deductions, Credits, and Taxes for Tax
with Adjusted Gross Income Plus Preferences of \$200,000 or Over -- 1975

As Percentages of Adjusted Gross Income Plus Preferences

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	96.4	60.6	81.1	97.9
AGI PLUS PREFERENCES	100.0	100.0	100.0	100.0
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	75.3	35.0	36.3	78.7
Investment Interest < Investment Income <u>1/</u>	3.6	39.4	18.9	2.1
Tax Preferences	21.2	26.5	45.5	19.3
Excluded Long-Term Capital Gains	17.7	24.6	37.2	16.2
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	3.4	2.0	8.3	3.1
ADJUSTED GROSS INCOME	79.0	78.0	55.1	80.8
Deficits	- 0.2	- 4.5	- 0.6	- 0.1
AGI of Returns with AGI > 0	78.8	73.5	54.5	80.7
Exemptions	0.6	0.7	0.5	0.6
Standard Deductions	*	*	*	*
Itemized Deductions	18.2	87.6	44.9	15.5
Charitable Contributions	5.9	9.0	9.8	5.5
Interest: Total	4.4	53.5	21.6	2.7
Home Mortgage	0.4	0.8	0.8	0.3
Invest. Interest < Invest. Income <u>3/</u>	35	38.5	18.2	2.1
Invest. Interest > Invest. Income <u>4/</u>	0.5	14.2	2.6	0.3
Medical	0.2	0.4	0.3	0.2
Casualty	0.1	5.1	0.3	0.1
Tax Expense	5.6	7.1	5.7	5.6
Miscellaneous Deductions	2.0	12.5	7.2	1.5
Excess of Exemptions & Deductions over AGI	0.3	15.3	1.8	*
Taxable Income	60.4	5.0	11.5	64.6
Tax at Normal Rates	36.0	2.8	5.7	38.6
Saving from Alternative Tax <u>5/</u>	0.2	*	*	0.2
Saving from Maximum Tax <u>5/</u>	1.9	0.1	0.1	2.0
Saving from Income Averaging	0.7	0.1	0.4	0.7
Tax Before Credits	33.3	2.6	5.2	35.7
Tax Credits	0.9	2.6	3.0	0.7
Foreign Tax Credit	0.3	2.4	2.1	0.2
Investment Credit	0.6	0.2	0.9	0.5
All Other Credits <u>6/</u>	*	*	*	*
Tax After Credits	32.4	0	2.2	34.9
Minimum Tax	0.6	0	3.4	0.4
Total Income Tax	33.0	0	5.6	35.4
Deduction Equivalent of Tax Credits <u>7/</u>	1.3	4.6	5.2	1.1
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	56.4	4.6	10.7	60.3
Income Tax after Credits	55.0	0	5.5	59.2
Total Income Tax	56.1	0	12.3	59.9
Number of Tax Returns Represented in the tabulation	43,344	362	2,257	40,725

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See Uniform footnotes following Table 76-7 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-7

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1975

Aggregate Data
(\$ in thousands)

	:	:	:	:
	All	Nontaxable	Nearly	All Other
	Returns	Returns	Returns	Taxable
	Returns	Returns	Returns	Returns
INCOME, PER CONCEPT	11,788,400	47,469	170,417	11,570,514
EXPANDED INCOME	14,282,404	51,402	205,307	14,025,695
AGI PLUS PREFERENCES	14,629,433	65,669	247,897	14,315,866
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	11,788,400	47,469	170,417	11,570,514
Investment Interest < Investment Income <u>1/</u>	338,213	13,853	38,294	286,066
Tax Preferences	2,502,820	4,349	39,184	2,459,287
Excluded Long-Term Capital Gains	2,073,083	3,803	29,256	2,040,023
Dividend Exclusion	4,602	16	52	4,533
Other Tax Preferences <u>2/</u>	425,135	530	9,875	414,729
ADJUSTED GROSS INCOME	12,126,613	61,321	208,712	11,856,580
Deficits	0	0	0	0
AGI of Returns with AGI > 0	12,126,613	61,321	208,712	11,856,580
Exemptions	83,477	326	919	82,234
Standard Deductions	1,484	7	13	1,465
Itemized Deductions	2,582,521	63,325	162,271	2,356,925
Charitable Contributions	931,624	10,209	43,090	878,324
Interest: Total	461,584	28,631	61,393	371,560
Home Mortgage	49,360	602	3,644	45,113
Invest. Interest < Invest. Income <u>3/</u>	338,213	13,853	38,294	286,066
Invest. Interest > Invest. Income <u>4/</u>	74,011	14,176	19,453	40,382
Medical	23,644	387	813	22,444
Casualty	17,690	3,585	2,610	11,495
Tax Expense	854,672	6,762	20,523	827,388
Miscellaneous Deductions	293,306	13,750	33,844	245,711
Excess of Exemptions & Deductions over AGI	16,545	9,322	3,253	3,970
Taxable Income	9,475,676	6,986	48,765	9,419,927
Tax at Normal Rates	5,780,480	4,228	28,842	5,747,410
Saving from Alternative Tax <u>5/</u>	24,373	12	88	24,274
Saving from Maximum Tax <u>5/</u>	330,005	180	934	328,891
Saving from Income Averaging	84,827	198	734	83,895
Tax Before Credits	5,343,035	3,838	27,086	5,312,111
Tax Credits	137,006	3,837	22,300	110,869
Foreign Tax Credit	52,906	3,676	20,844	28,387
Investment Credit	82,816	157	1,454	81,205
All Other Credits <u>6/</u>	1,284	4	2	1,277
Tax After Credits	5,206,027	0	4,787	5,201,241
Minimum Tax	65,210	0	2,930	62,279
Total Income Tax	5,271,237	0	7,717	5,263,520
Deduction Equivalent of Tax Credits <u>7/</u>	201,786	6,415	33,696	161,675
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	8,842,379	6,415	46,010	8,789,954
Income Tax after Credits	8,640,593	0	12,314	8,628,279
Total Income Tax	8,737,761	0	18,121	8,719,640
Number of Tax Returns Represented in the tabulation	31,391	126	345	30,920

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

Table 75-8

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1975

As Percentages of Adjusted Gross Income Minus Investment Interest

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	121.2	108.3	120.5	121.2
AGI PLUS PREFERENCES	124.1	138.3	145.5	123.7
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	100.0	100.0	100.0	100.0
Investment Interest < Investment Income <u>1/</u>	2.9	29.2	22.5	2.5
Tax Preferences	21.2	9.2	23.0	21.2
Excluded Long-Term Capital Gains	17.6	8.0	17.2	17.6
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	3.6	1.1	5.8	3.6
ADJUSTED GROSS INCOME	102.9	129.2	122.5	102.5
Deficits	0	0	0	0
AGI of Returns with AGI > 0	102.9	129.2	122.5	102.5
Exemptions	0.7	0.7	0.5	0.7
Standard Deductions	*	*	*	*
Itemized Deductions	21.9	133.4	95.2	20.4
Charitable Contributions	7.9	21.5	25.3	7.6
Interest: Total	3.9	60.3	36.0	3.2
Home Mortgage	0.4	1.3	2.1	0.4
Invest. Interest < Invest. Income <u>3/</u>	2.9	29.2	22.5	2.5
Invest. Interest > Invest. Income <u>4/</u>	0.6	29.9	11.4	0.4
Medical	0.2	0.8	0.5	0.2
Casualty	0.2	7.6	1.5	0.1
Tax Expense	7.2	14.2	12.0	7.2
Miscellaneous Deductions	2.5	29.0	19.9	2.1
Excess of Exemptions & Deductions over AGI	0.1	19.6	1.9	*
Taxable Income	80.4	14.7	28.6	81.4
Tax at Normal Rates	49.0	8.9	16.9	49.7
Saving from Alternative Tax <u>5/</u>	0.2	*	0.1	0.2
Saving from Maximum Tax <u>5/</u>	2.8	0.4	0.6	2.8
Saving from Income Averaging	0.7	0.4	0.4	0.7
Tax Before Credits	45.3	8.1	15.9	45.9
Tax Credits	1.2	8.1	13.1	1.0
Foreign Tax Credit	0.4	7.7	12.2	0.2
Investment Credit	0.7	0.3	0.8	0.7
All Other Credits <u>6/</u>	*	*	*	*
Tax After Credits	44.2	0	2.8	45.0
Minimum Tax	0.6	0	1.7	0.5
Total Income Tax	44.7	0	4.5	45.5
Deduction Equivalent of Tax Credits <u>7/</u>	1.2	13.5	19.8	1.4
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	75.0	13.5	27.0	76.0
Income Tax after Credits	73.3	0	7.2	74.6
Total Income Tax	74.1	0	10.6	75.4
Number of Tax Returns Represented in the tabulation	31,391	126	345	30,920

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1975 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 75-9

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts
-- All Returns, 1975

	:	:	Less Than	:	\$50,000 to	:	\$100,000 to	:	\$200,000
	:	Total	:	\$50,000	:	\$100,000	:	\$200,000	and over
<hr/>									
<u>Expanded Income</u>					Adjusted Gross Income				
Total		82,229,182		81,262,674		780,470		152,432	33,606
Less than \$ 50,000		81,215,630		81,197,893		17,524		180	33
\$ 50,000 to \$100,000		807,399		63,103		738,376		5,825	95
\$100,000 to \$200,000		165,269		1,307		24,156		138,670	1,136
\$200,000 and over		40,884		371		414		7,757	32,342
<hr/>									
<u>Expanded Income</u>					Adjusted Gross Income plus Preferences				
Total		82,229,182		81,190,697		821,253		173,888	43,344
Less than \$ 50,000		81,215,630		81,190,697		24,477		418	38
\$ 50,000 to \$100,000		807,399				796,776		10,481	142
\$100,000 to \$200,000		165,269						162,989	2,280
\$200,000 and over		40,884							40,884
<hr/>									
<u>Expanded Income</u>					Adjusted Gross Income minus Investment Interest				
Total		82,229,182		81,289,752		762,709		145,330	31,391
Less than \$ 50,000		81,215,630		81,215,630					
\$ 50,000 to \$100,000		807,399		71,746		735,653			
\$100,000 to \$200,000		165,269		1,890		26,480		136,899	
\$200,000 and over		40,884		486		576		8,431	31,391
<hr/>									
<u>Adjusted Gross Income</u>					Adjusted Gross Income plus Preferences				
Total		82,229,182		81,190,697		821,253		173,888	43,344
Less than \$ 50,000		81,262,674		81,190,697		70,022		1,569	386
\$ 50,000 to \$100,000						751,231		28,747	492
\$100,000 to \$200,000		152,432						143,572	8,860
\$200,000 and over		33,606							33,606
<hr/>									
<u>Adjusted Gross Income</u>					Adjusted Gross Income minus Investment Interest				
Total		82,229,182		81,289,752		762,709		145,330	31,391
Less than \$ 50,000		81,262,674		81,262,674					
\$ 50,000 to \$100,000		780,470		26,582		753,888			
\$100,000 to \$200,000		152,432		410		8,678		143,344	
\$200,000 and over		33,606		86		143		1,986	31,391
<hr/>									
<u>Adjusted Gross Income</u> <u>plus Preferences</u>					Adjusted Gross Income minus Investment Interest				
Total		82,229,182		81,289,752		762,709		145,330	31,391
Less than \$ 50,000		81,190,697		81,190,697					
\$ 50,000 to \$100,000						726,294			
\$100,000 to \$200,000		173,888		3,412		35,442		135,034	
\$200,000 and over		43,344		684		973		10,296	31,391

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Source: 1975 Internal Revenue Service Tax Model.

Table 75-10

Cross-Classification of Numbers of Tax Returns by Income Class by Alternative Income Concepts
-- Nontaxable Returns, 1975

	:	Less Than	:	\$50,000 to	:	\$100,000 to	:	\$200,000
	:	\$50,000	:	\$100,000	:	\$200,000	:	and over
	:	Total	:		:		:	
<u>Expanded Income</u>								
Total		20,822,251		20,816,533		4,749		709
Less than \$ 50,000		20,816,696		20,815,601		958		115
\$ 50,000 to \$100,000		4,654		779		3,617		219
\$100,000 to \$200,000		686		107		152		366
\$200,000 and over		215		46		22		9
								138
<u>Expanded Income</u>								
Total		20,822,251		20,813,859		6,607		1,423
Less than \$ 50,000		20,816,696		20,813,859		2,467		343
\$ 50,000 to \$100,000		4,654				4,140		471
\$100,000 to \$200,000		686						609
\$200,000 and over		215						
								215
<u>Expanded Income</u>								
Total		20,822,251		20,817,839		3,879		407
Less than \$ 50,000		20,816,696		20,816,696				
\$ 50,000 to \$100,000		4,654		876		3,778		
\$100,000 to \$200,000		686		212		87		387
\$200,000 and over		215		55		14		20
								126
<u>Adjusted Gross Income</u>								
Total		20,822,251		20,813,859		6,607		1,423
Less than \$ 50,000		20,816,533		20,813,859		2,498		123
\$ 50,000 to \$100,000		4,749				4,109		618
\$100,000 to \$200,000		709						682
\$200,000 and over		260						
								260
<u>Adjusted Gross Income</u>								
Total		20,822,251		20,817,839		3,879		407
Less than \$ 50,000		20,816,533		20,816,533				
\$ 50,000 to \$100,000		4,749		1,135		3,614		
\$100,000 to \$200,000		709		141		229		339
\$200,000 and over		260		30		36		68
								126
<u>Adjusted Gross Income</u>								
plus Preferences								
Total		20,822,251		20,817,839		3,879		407
Less than \$ 50,000		20,813,859		20,813,859				
\$ 50,000 to \$100,000		6,607		3,279		3,328		
\$100,000 to \$200,000		1,423		596		501		326
\$200,000 and over		362		105		50		81
								126

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Source: 1975 Internal Revenue Service Tax Model.



Appendix C

1974 Data

The eight tables in this appendix contain aggregate data and percentage distributions of the income, preference, deduction, credit, and tax items from 1974 returns. They are the counterparts to Tables 76-1 through 76-8 for 1976 and Tables 75-1 through 75-8 for 1975. They are similar to the Tables 15 through 22 in last year's high-income report, with two major exceptions. The first change is that the nearly nontaxable group has been redefined to be consistent with the definition for 1975 and 1976 used throughout this report. Nearly nontaxable returns are those returns which show some tax liability but which have a ratio of taxable income to income of less than 20 percent. ^{1/} The redefinition of nearly nontaxable returns also required a revision of the data for all other taxable returns. Again consistent with the data for 1975 and 1976, the second change is that in the percentage tables the income concept used as the classifier is considered to be 100 percent; in 1974-1975 report, expanded income was 100 percent on all tables, regardless of the classifier.

The data in this appendix, along with all other 1974 data in this report and all 1974 data in last year's high-income report, are derived from the 1974 Internal Revenue Service tax model. It has just been discovered that there is a systematic error in the 1974 IRS tax model and that all of the 1974 data in both last year's and this year's high-income report are subject to revision. The weights assigned to some of the specific tax returns in the model were incorrect. As a result, some of the population estimates from the 1974 IRS tax model are too large. The incorrectly weighted tax model indicates that there are 36,015 returns with adjusted gross income of \$200,000 or more as compared to 31,132 in the correctly weighted 1974

^{1/} The denominator in the taxable income to income ratio is whichever income concept is used for selection and classification for that particular table.

Statistics of Income file from which the tax model itself was derived. This represents a 16 percent overstatement in the number of high-income returns. However, since the number of nontaxable returns appears to be correct, only the numbers of nearly nontaxables and of all other taxables are inflated. It is believed that the overestimates of the numbers of high-income returns for the three other income concepts are of the same order of magnitude.

While these errors are disturbing, we do not believe that they make the 1974 data published so far useless. The dollar aggregates of income, deductions, credits, and taxes attributable to these high-income returns are incorrect, but the distributions are correct. Thus, the shares representing the relative importance of each deduction, etc., which are shown on the even numbered tables are essentially correct.

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Table 74-1

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1974Aggregate Data
(\$ in thousands)

	:	:	:	:
	All	Nontaxable	Nearly	All Other
	Returns	Returns	Nontaxable	Taxable
	Returns	Returns	Returns	Returns
INCOME, PER CONCEPT	17,087,358	58,190	697,474	16,331,694
EXPANDED INCOME	17,087,358	58,190	697,474	16,331,694
AGI PLUS PREFERENCES	17,603,969	78,076	824,151	16,701,742
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	13,439,765	33,673	285,814	13,120,278
Investment Interest < Investment Income <u>1/</u>	516,610	19,887	126,677	370,046
Tax Preferences	3,657,128	24,754	416,207	3,216,167
Excluded Long-Term Capital Gains	3,381,524	24,732	338,785	3,018,007
Dividend Exclusion	6,022	21	179	5,822
Other Tax Preferences <u>2/</u>	269,583	0	77,245	192,338
ADJUSTED GROSS INCOME	13,968,792	56,302	415,584	13,496,906
Deficits	- 21,950	-2,978	- 7,643	- 11,329
AGI of Returns with AGI > 0	13,946,840	53,323	407,941	13,485,576
Exemptions	113,375	724	3,569	109,082
Standard Deductions	2,255	11	41	2,203
Itemized Deductions	2,907,140	61,799	344,380	2,500,961
Charitable Contributions	970,901	8,333	81,222	881,346
Interest: Total	636,691	31,715	148,395	456,581
Home Mortgage	41,366	182	1,669	39,515
Invest. Interest < Invest. Income <u>3/</u>	507,077	19,651	122,129	365,297
Invest. Interest > Invest. Income <u>4/</u>	88,250	11,883	24,598	51,769
Medical	29,180	141	2,560	26,479
Casualty	18,180	2,721	3,601	11,858
Tax Expense	919,220	5,583	46,906	866,731
Miscellaneous Deductions	332,967	13,306	61,693	257,968
Excess of Exemptions & Deductions over AGI	25,639	10,259	11,170	4,210
Taxable Income	10,972,110	4,075	78,856	10,889,179
Tax at Normal Rates	6,567,115	2,248	39,816	6,525,051
Saving from Alternative Tax <u>5/</u>	40,141	0	42	40,099
Saving from Maximum Tax <u>5/</u>	290,766	66	978	289,722
Saving from Income Averaging	203,136	90	2,790	200,256
Tax Before Credits	6,033,169	2,094	36,007	5,995,068
Tax Credits	111,218	2,094	22,092	87,032
Foreign Tax Credit	47,933	1,916	16,400	29,617
Investment Credit	62,650	178	5,688	56,784
All Other Credits <u>6/</u>	635	0	4	631
Tax After Credits	5,921,951	0	13,916	5,908,035
Minimum Tax	114,594	0	32,705	81,889
Total Income Tax	6,036,542	0	46,616	5,989,926
Deduction Equivalent of Tax Credits <u>7/</u>	170,539	3,854	37,865	128,820
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	10,196,555	3,854	72,687	10,120,014
Income Tax after Credits	10,026,016	0	34,822	9,991,194
Total Income Tax	10,220,917	0	96,990	10,123,927
Number of Tax Returns Represented in the tabulation	42,687	167	1,275	41,245

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

Table 74-2

Income, Deductions, Credits, and Taxes for Tax Returns
with Expanded Income of \$200,000 or Over -- 1974

As Percentages of Expanded Income

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	100.0	100.0	100.0	100.0
AGI PLUS PREFERENCES	103.0	134.2	118.2	102.3
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	78.7	57.9	41.0	80.3
Investment Interest < Investment Income <u>1/</u>	3.0	34.2	18.2	2.3
Tax Preferences	21.4	42.5	59.7	19.7
Excluded Long-Term Capital Gains	19.8	42.5	48.6	18.5
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	1.6	0	11.1	1.2
ADJUSTED GROSS INCOME	81.7	96.8	59.6	82.6
Deficits	- 0.1	- 5.1	- 1.1	- 0.1
AGI of Returns with AGI > 0	81.6	91.6	58.5	82.6
Exemptions	0.7	1.2	0.5	0.7
Standard Deductions	*	*	*	*
Itemized Deductions	17.0	106.2	49.4	15.3
Charitable Contributions	5.7	14.3	11.6	5.4
Interest: Total	3.7	54.5	21.3	2.8
Home Mortgage	0.2	0.3	0.2	0.2
Invest. Interest < Invest. Income <u>3/</u>	3.0	33.8	17.5	2.2
Invest. Interest > Invest. Income <u>4/</u>	0.5	20.4	3.5	0.3
Medical	0.2	0.2	0.4	0.2
Casualty	0.1	4.7	0.5	0.1
Tax Expense	5.4	9.6	6.7	5.3
Miscellaneous Deductions	1.9	22.9	8.8	1.6
Excess of Exemptions & Deductions over AGI	0.2	17.6	1.6	*
Taxable Income	64.2	7.0	11.3	66.7
Tax at Normal Rates	38.4	3.9	5.7	40.0
Saving from Alternative Tax <u>5/</u>	0.2	0	*	0.2
Saving from Maximum Tax <u>5/</u>	1.7	0.1	0.1	1.8
Saving from Income Averaging	1.2	0.2	0.4	1.2
Tax Before Credits	35.3	3.6	5.2	36.7
Tax Credits	0.7	3.6	3.2	0.5
Foreign Tax Credit	0.3	3.3	2.4	0.2
Investment Credit	0.4	0.3	0.8	0.4
All Other Credits <u>6/</u>	*	0	*	*
Tax After Credits	34.7	0	2.0	36.2
Minimum Tax	0.7	0	4.7	0.5
Total Income Tax	35.4	0	6.7	36.7
Deduction Equivalent of Tax Credits <u>7/</u>	1.0	6.6	5.4	0.8
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	59.7	6.6	10.4	62.0
Income Tax after Credits	58.7	0	5.0	61.2
Total Income Tax	59.8	0	13.9	62.0
Number of Tax Returns Represented in the tabulation	42,687	167	1,275	41,245

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 74-3

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1974Aggregate Data
(\$ in thousands)

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	13,181,598	109,808	412,479	12,659,311
EXPANDED INCOME	15,097,684	45,979	313,614	14,738,091
AGI PLUS PREFERENCES	15,741,891	114,595	498,492	15,128,804
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	12,551,430	42,148	235,265	12,274,017
Investment Interest < Investment Income <u>1/</u>	630,168	67,660	177,215	385,293
Tax Preferences	2,560,293	4,787	86,012	2,469,494
Excluded Long-Term Capital Gains	2,404,443	4,752	74,777	2,324,914
Dividend Exclusion	5,242	36	134	5,072
Other Tax Preferences <u>2/</u>	150,609	0	11,103	139,506
ADJUSTED GROSS INCOME	13,181,598	109,808	412,479	12,659,311
Deficits	0	0	0	0
AGI of Returns with AGI > 0	13,181,598	109,808	412,479	12,659,311
Exemptions	96,396	972	2,538	92,886
Standard Deductions	1,286	4	0	1,282
Itemized Deductions	2,938,358	127,958	362,875	2,447,525
Charitable Contributions	934,795	11,254	64,331	859,210
Interest: Total	781,040	88,920	213,599	478,521
Home Mortgage	35,140	317	1,281	33,542
Invest. Interest < Invest. Income <u>3/</u>	630,168	67,660	177,215	385,293
Invest. Interest > Invest. Income <u>4/</u>	115,734	20,944	35,104	59,686
Medical	27,042	401	1,912	24,729
Casualty	17,743	2,785	3,391	11,567
Tax Expense	860,934	8,814	33,225	818,895
Miscellaneous Deductions	316,802	15,782	46,415	254,605
Excess of Exemptions & Deductions over AGI	36,330	23,013	11,975	1,342
Taxable Income	10,181,889	3,887	59,040	10,118,962
Tax at Normal Rates	6,170,348	2,208	30,271	6,137,869
Saving from Alternative Tax <u>5/</u>	35,243	0	67	35,176
Saving from Maximum Tax <u>5/</u>	291,366	66	986	290,314
Saving from Income Averaging	155,228	93	678	154,457
Tax Before Credits	5,688,566	2,051	28,539	5,657,976
Tax Credits	101,942	2,051	17,852	82,039
Foreign Tax Credit	45,837	1,965	15,815	28,057
Investment Credit	55,414	85	1,949	53,380
All Other Credits <u>6/</u>	692	0	90	602
Tax After Credits	5,586,624	0	10,688	5,575,936
Minimum Tax	70,710	0	5,828	64,882
Total Income Tax	5,657,334	0	16,516	5,640,818
Deduction Equivalent of Tax Credits <u>7/</u>	152,181	3,659	28,490	120,032
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	9,488,324	3,659	56,299	9,428,366
Income Tax after Credits	9,336,143	0	27,809	9,308,334
Total Income Tax	9,444,781	0	40,107	9,404,674
Number of Tax Returns Represented in the tabulation	36,015	244	896	34,875

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

Table 74-4

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income of \$200,000 or Over -- 1974

As Percentages of Adjusted Gross Income

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	114.5	41.9	76.0	116.4
AGI PLUS PREFERENCES	119.4	104.4	120.8	119.5
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	95.2	38.4	57.0	97.0
Investment Interest < Investment Income <u>1/</u>	4.8	61.6	43.0	3.0
Tax Preferences	19.4	4.4	20.8	19.5
Excluded Long-Term Capital Gains	18.2	4.3	18.1	18.4
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	1.1	0	2.7	1.1
ADJUSTED GROSS INCOME	100.0	100.0	100.0	100.0
Deficits	0	0	0	0
AGI of Returns with AGI > 0	100.0	100.0	100.0	100.0
Exemptions	0.7	0.9	0.6	0.7
Standard Deductions	*	*	0	*
Itemized Deductions	22.3	116.5	88.0	19.3
Charitable Contributions	7.1	10.2	15.6	6.8
Interest: Total	5.9	81.0	51.8	3.8
Home Mortgage	0.3	0.3	0.3	0.3
Invest. Interest < Invest. Income <u>3/</u>	4.8	61.6	43.0	3.0
Invest. Interest > Invest. Income <u>4/</u>	0.9	19.1	8.5	0.5
Medical	0.2	0.4	0.5	0.2
Casualty	0.1	2.5	0.8	0.1
Tax Expense	6.5	8.0	8.0	6.5
Miscellaneous Deductions	2.4	14.4	11.2	2.0
Excess of Exemptions & Deductions over AGI	0.3	21.0	2.9	*
Taxable Income	77.2	3.5	14.3	79.9
Tax at Normal Rates	46.8	2.9	7.3	48.5
Saving from Alternative Tax <u>5/</u>	0.3	0	*	0.3
Saving from Maximum Tax <u>5/</u>	2.2	0.1	0.2	2.3
Saving from Income Averaging	1.2	0.1	0.2	1.2
Tax Before Credits	43.2	1.9	6.9	44.7
Tax Credits	0.8	1.9	4.3	0.6
Foreign Tax Credit	0.4	1.8	3.8	0.2
Investment Credit	0.4	0.1	0.5	0.4
All Other Credits <u>6/</u>	*	0	*	*
Tax After Credits	42.4	0	2.6	44.0
Minimum Tax	0.5	0	1.4	0.5
Total Income Tax	42.9	0	4.0	44.6
Deduction Equivalent of Tax Credits <u>7/</u>	1.2	3.3	6.9	1.0
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	72.0	3.5	13.6	74.5
Income Tax after Credits	70.8	0	6.7	73.5
Total Income Tax	71.6	0	9.7	74.3
Number of Tax Returns Represented in the tabulation	36,015	244	896	34,875

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 74-5

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1974

Aggregate Data
(\$ in thousands)

	: : All : Returns	: : Nontaxable : Returns	: : Nearly : Nontaxable : Returns	: : All Other : Taxable : Returns
INCOME, PER CONCEPT	18,335,322	148,012	1,168,928	17,018,382
EXPANDED INCOME	17,572,387	70,995	893,327	16,608,065
AGI PLUS PREFERENCES	18,335,322	148,012	1,168,928	17,018,382
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	13,839,140	43,463	386,851	13,408,826
Investment Interest < Investment Income <u>1/</u>	762,934	77,018	275,599	410,317
Tax Preferences	3,753,498	29,377	519,373	3,204,748
Excluded Long-Term Capital Gains	3,469,828	29,329	429,079	3,011,420
Dividend Exclusion	6,494	49	329	6,116
Other Tax Preferences <u>2/</u>	277,177	0	89,965	187,212
ADJUSTED GROSS INCOME	14,603,775	121,613	657,198	13,824,964
Deficits	- 21,950	- 2,978	- 7,643	- 11,329
AGI of Returns with AGI > 0	14,581,823	118,635	649,553	13,813,635
Exemptions	122,073	1,253	6,484	114,336
Standard Deductions	2,255	11	41	2,203
Itemized Deductions	3,294,290	144,638	563,150	2,586,502
Charitable Contributions	1,006,520	12,415	105,104	889,001
Interest: Total	918,086	101,574	309,592	506,920
Home Mortgage	45,561	450	3,137	41,974
Invest. Interest < Invest. Income <u>3/</u>	742,682	75,172	262,703	404,807
Invest. Interest > Invest. Income <u>4/</u>	129,842	25,951	43,752	60,139
Medical	30,960	422	3,395	27,143
Casualty	19,460	2,785	4,367	12,308
Tax Expense	963,294	10,126	65,463	887,705
Miscellaneous Deductions	355,971	17,315	75,232	263,424
Excess of Exemptions & Deductions over AGI	55,380	28,768	24,666	1,946
Taxable Income	11,240,983	4,528	112,274	11,124,181
Tax at Normal Rates	6,696,412	2,396	52,638	6,641,378
Saving from Alternative Tax <u>5/</u>	41,184	0	74	41,110
Saving from Maximum Tax <u>5/</u>	294,535	66	986	293,483
Saving from Income Averaging	206,673	93	3,769	202,811
Tax Before Credits	6,154,104	2,238	47,809	6,104,057
Tax Credits	114,757	2,238	24,154	88,365
Foreign Tax Credit	49,225	1,970	17,138	30,117
Investment Credit	64,804	268	6,925	57,611
All Other Credits <u>6/</u>	729	0	92	637
Tax After Credits	6,039,347	0	23,653	6,015,694
Minimum Tax	117,372	0	39,404	77,968
Total Income Tax	6,156,719	0	63,057	6,093,662
Deduction Equivalent of Tax Credits <u>7/</u>	177,590	4,300	42,425	130,865
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	10,452,087	4,300	104,213	10,343,574
Income Tax after Credits	10,274,497	0	61,788	10,212,709
Total Income Tax	10,477,920	0	140,452	10,337,467
Number of Tax Returns Represented in the tabulation	45,704	355	2,285	43,064

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See Uniform footnotes following Table 76-8 in Appendix A

Source: 1974 Internal Revenue Service tax model.

Table 74-6

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income plus Preferences of \$200,000 or Over -- 1974

As Percentages of Adjusted Gross Income Plus Preferences

	: All : Returns	: Nontaxable : Returns	: Nearly : Nontaxable : Returns	: All Other : Taxable : Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	95.8	48.0	76.4	97.6
AGI PLUS PREFERENCES	100.0	100.0	100.0	100.0
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	75.5	29.4	33.1	78.8
Investment Interest < Investment Income <u>1/</u>	4.2	52.0	23.6	2.4
Tax Preferences	20.5	19.8	44.4	18.8
Excluded Long-Term Capital Gains	18.9	19.8	36.7	17.7
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	1.5	0	7.7	1.1
ADJUSTED GROSS INCOME	79.6	82.2	56.2	81.2
Deficits	- 0.1	- 2.0	- 0.6	- 0.1
AGI of Returns with AGI > 0	79.5	80.2	55.6	81.2
Exemptions	0.7	0.8	0.6	0.7
Standard Deductions	*	*	*	*
Itemized Deductions	18.0	97.7	48.2	15.2
Charitable Contributions	5.5	8.4	9.0	5.2
Interest: Total	5.0	68.6	26.5	3.0
Home Mortgage	0.2	0.3	0.3	0.2
Invest. Interest < Invest. Income <u>3/</u>	4.0	50.8	22.5	2.4
Invest. Interest > Invest. Income <u>4/</u>	0.7	17.5	3.7	0.4
Medical	0.2	0.3	0.3	0.2
Casualty	0.1	1.9	0.4	0.1
Tax Expense	5.2	6.8	5.6	5.2
Miscellaneous Deductions	1.9	11.7	6.4	1.6
Excess of Exemptions & Deductions over AGI	0.3	19.4	2.1	*
Taxable Income	61.3	3.1	9.6	65.4
Tax at Normal Rates	36.5	1.6	4.5	39.0
Saving from Alternative Tax <u>5/</u>	0.2	0	*	0.2
Saving from Maximum Tax <u>5/</u>	1.6	*	0.1	1.7
Saving from Income Averaging	1.1	0.1	0.3	1.2
Tax Before Credits	33.6	1.5	4.1	35.9
Tax Credits	0.6	1.5	2.1	0.5
Foreign Tax Credit	0.3	1.3	1.5	0.2
Investment Credit	0.4	0.2	0.6	0.3
All Other Credits <u>6/</u>	*	0	*	*
Tax After Credits	32.9	0	2.0	35.4
Minimum Tax	0.6	0	3.4	0.5
Total Income Tax	33.6	0	5.4	35.8
Deduction Equivalent of Tax Credits <u>7/</u>	1.0	2.9	3.6	0.8
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	57.0	2.9	8.9	60.8
Income Tax after Credits	55.9	0	5.3	60.0
Total Income Tax	57.2	0	12.0	60.7
Number of Tax Returns Represented in the tabulation	45,704	355	2,285	43,064

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Table 74-7

Income, Deductions, Credits, and Taxes for Tax Return
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1974

Aggregate Data
(\$ in thousands)

	All Returns	Nontaxable Returns	Nearly Nontaxable Returns	All Other Taxable Returns
INCOME, PER CONCEPT	12,097,231	32,719	146,957	11,917,555
EXPANDED INCOME	14,506,370	34,437	162,358	14,309,575
AGI PLUS PREFERENCES	14,889,783	50,985	202,360	14,636,438
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	12,097,231	32,719	146,957	11,917,555
Investment Interest < Investment Income <u>1/</u>	375,242	16,323	37,735	321,184
Tax Preferences	2,417,307	1,943	17,664	2,397,700
Excluded Long-Term Capital Gains	2,271,746	1,932	12,479	2,257,335
Dividend Exclusion	4,789	11	51	4,727
Other Tax Preferences <u>2/</u>	140,774	0	5,136	135,638
ADJUSTED GROSS INCOME	12,472,476	49,041	184,696	12,238,739
Deficits	0	0	0	0
AGI of Returns with AGI > 0	12,472,476	49,041	184,696	12,238,739
Exemptions	88,234	535	996	86,703
Standard Deductions	1,286	4	0	1,282
Itemized Deductions	2,531,637	54,807	157,163	2,319,667
Charitable Contributions	895,503	7,461	41,439	846,603
Interest: Total	492,795	28,303	59,447	405,045
Home Mortgage	31,687	110	517	31,060
Invest. Interest < Invest. Income <u>3/</u>	375,242	16,323	37,735	321,184
Invest. Interest > Invest. Income <u>4/</u>	85,867	11,871	21,195	52,801
Medical	25,306	115	1,176	24,015
Casualty	15,562	2,719	1,806	11,037
Tax Expense	812,789	4,370	19,743	788,676
Miscellaneous Deductions	289,682	11,839	33,552	244,291
Excess of Exemptions & Deductions over AGI	14,459	9,669	4,149	641
Taxable Income	9,865,778	3,365	30,684	9,831,729
Tax at Normal Rates	6,011,449	2,034	16,252	5,993,163
Saving from Alternative Tax <u>5/</u>	33,611	0	36	33,575
Saving from Maximum Tax <u>5/</u>	286,647	66	977	285,604
Saving from Income Averaging	150,694	90	259	150,345
Tax Before Credits	5,540,560	1,880	14,977	5,523,703
Tax Credits	97,705	1,880	10,415	85,410
Foreign Tax Credit	44,494	1,875	9,893	32,726
Investment Credit	52,611	6	516	52,089
All Other Credits <u>6/</u>	598	0	3	595
Tax After Credits	5,442,855	0	4,560	5,438,295
Minimum Tax	64,152	0	964	63,188
Total Income Tax	5,507,007	0	5,524	5,501,483
Deduction Equivalent of Tax Credits <u>7/</u>	144,306	3,144	16,766	124,396
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	9,188,943	3,144	28,761	9,157,038
Income Tax after Credits	9,044,637	0	11,995	9,032,642
Total Income Tax	9,139,904	0	14,467	9,125,437
Number of Tax Returns Represented in the tabulation	33,142	89	366	32,687

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

Table 74-8

Income, Deductions, Credits, and Taxes for Tax Returns
with Adjusted Gross Income minus Investment Interest of \$200,000 or Over -- 1974

As Percentage of Adjusted Gross Income less Investment Interest

	: All Returns	: Nontaxable Returns	: Nearly Nontaxable Returns	: All Other Taxable Returns
INCOME, PER CONCEPT	100.0 %	100.0 %	100.0 %	100.0 %
EXPANDED INCOME	119.9	105.2	110.5	120.1
AGI PLUS PREFERENCES	123.1	155.8	137.7	122.8
AGI MINUS INVESTMENT INTEREST < INVESTMENT INCOME	100.0	100.0	100.0	100.0
Investment Interest < Investment Income <u>1/</u>	3.1	49.9	25.7	2.7
Tax Preferences	20.0	5.9	12.0	20.1
Excluded Long-Term Capital Gains	18.8	5.9	8.5	18.9
Dividend Exclusion	*	*	*	*
Other Tax Preferences <u>2/</u>	1.2	0	3.5	1.1
ADJUSTED GROSS INCOME	103.1	149.9	125.7	102.7
Deficits	0	0	0	0
AGI of Returns with AGI > 0	103.1	149.9	125.7	102.7
Exemptions	0.7	1.6	0.7	0.7
Standard Deductions	*	*	0	*
Itemized Deductions	20.9	167.5	106.9	19.5
Charitable Contributions	7.4	22.8	28.2	7.1
Interest: Total	4.1	86.5	40.4	3.4
Home Mortgage	0.3	0.3	0.4	0.3
Invest. Interest < Invest. Income <u>3/</u>	3.1	49.9	25.7	2.7
Invest. Interest > Invest. Income <u>4/</u>	0.7	36.3	14.4	0.4
Medical	0.2	0.4	0.8	0.2
Casualty	0.1	8.3	1.2	0.1
Tax Expense	6.7	13.4	13.4	6.6
Miscellaneous Deductions	2.4	36.2	22.8	2.0
Excess of Exemptions & Deductions over AGI	0.1	29.6	2.8	*
Taxable Income	81.6	10.3	20.9	82.5
Tax at Normal Rates	49.7	6.2	11.1	50.3
Saving from Alternative Tax <u>5/</u>	0.3	0	*	0.3
Saving from Maximum Tax <u>5/</u>	2.4	0.2	0.7	2.4
Saving from Income Averaging	1.2	0.3	0.2	1.3
Tax Before Credits	45.8	5.8	10.2	46.4
Tax Credits	0.8	5.8	7.1	0.7
Foreign Tax Credit	0.4	5.7	6.7	0.3
Investment Credit	0.4	*	0.4	0.4
All Other Credits <u>6/</u>	*	0	*	*
Tax After Credits	45.0	0	3.1	45.6
Minimum Tax	0.5	0	0.7	0.5
Total Income Tax	45.5	0	3.8	46.2
Deduction Equivalent of Tax Credits <u>7/</u>	1.2	9.6	11.4	1.0
Taxable Income which would yield: <u>8/</u>				
Income Tax before Credits	76.0	9.6	19.6	76.8
Income Tax after Credits	74.8	0	8.2	75.8
Total Income Tax	75.6	0	9.8	76.6
Number of Tax Returns Represented in the tabulation	33,142	89	366	32,687

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See Uniform footnotes following Table 76-8 in Appendix A.

Source: 1974 Internal Revenue Service tax model.

* Less than 0.05 percent.

Appendix D

Comparing Deductions, Credits, and Special Tax Computations

In order to be able to compare tax credits and special tax computations such as the minimum tax, the alternative tax, the maximum tax, and income averaging to deductions and exclusions, a deduction equivalent for each of these provisions must be calculated. The deduction equivalent of a credit or of a special tax computation is computed by determining the difference between the taxable income which, using normal tax rate schedules, would yield the actual tax before the provision and the actual tax after the provision. For example, "deduction equivalent of tax credits" is equal to the difference between "taxable income which would yield tax before credits" and "taxable income which would yield tax after credits." 1/

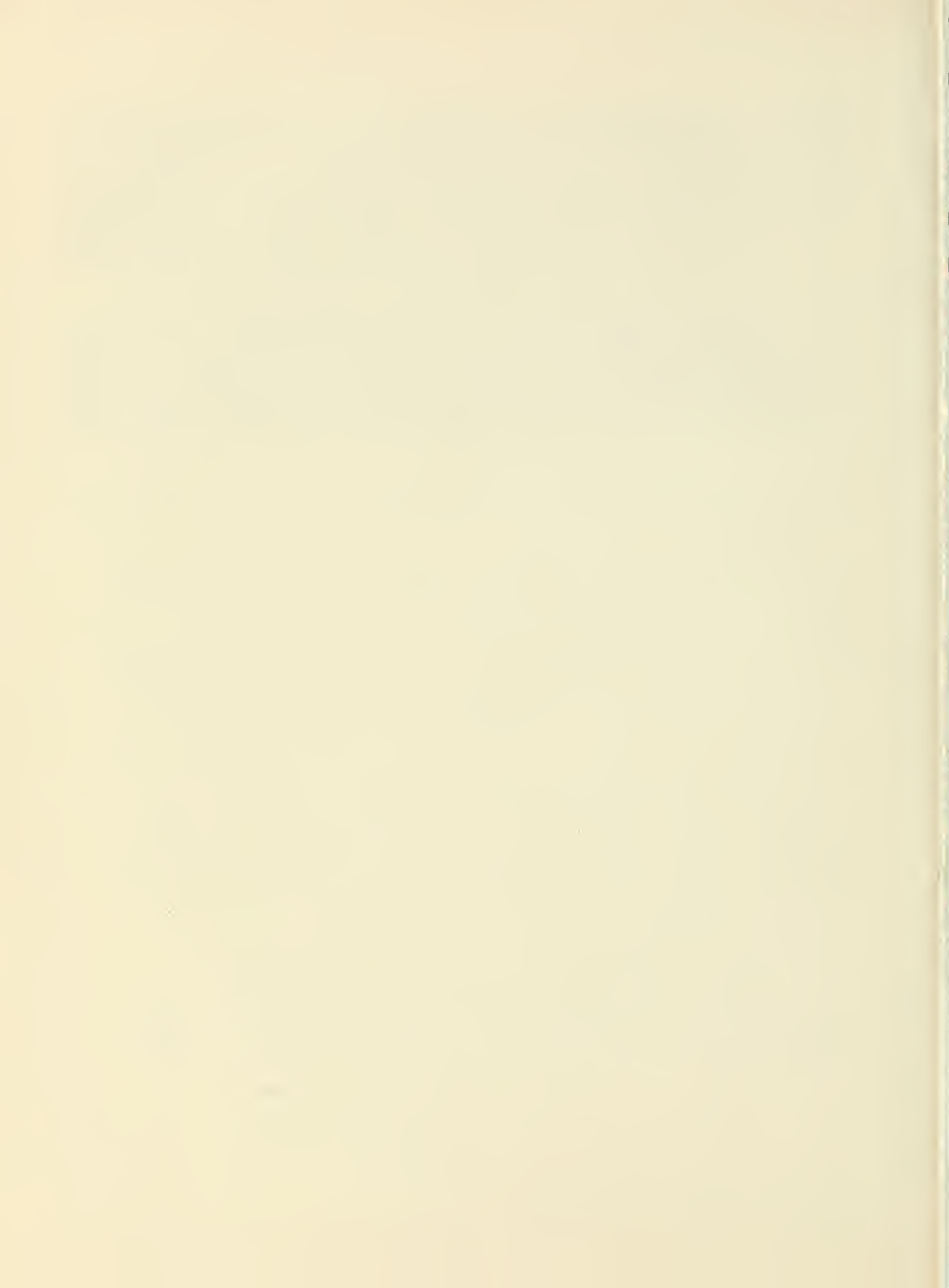
It should be noted that under this method of computing deductions and credits, the order in which the various deductions, credits, and special tax provisions are calculated affects the value of deduction equivalents. Because the tax rate schedule is progressive and successive increments to income are taxed at successively higher rates, the deduction of equivalent of the items which are last converted to a deduction equivalent will be larger (for the same amount of a credit) than the items converted first.

For purposes of computing the deduction equivalent of the credits for the tables in Appendices A, B, and C, credits were taken after deductions, so that the deduction equivalent of credits is biased upwards. In order to simplify computation, the general tax credits available to taxpayers in 1975 and 1976 were ignored. In 1975, the credit was \$30

1/ An alternative would have been to compute the value of the tax saving provided by deductions and exclusions. That saving would be comparable to the value of a special tax computation and of a tax credit. Neither method is superior analytically.

for each exemption claimed, other than exemptions for age and blindness. In 1976, the general tax credit was the larger of \$35 per exemption (other than those for age or blindness) or two percent of the first \$9,000 of tax (\$4,500 on a separate return of a married person). Omitting consideration of these credits is not significant for high-income returns. It also facilitates accurate comparisons between the deduction equivalents of nontaxable and taxable returns.

For Tables 16 and 17, credits and deductions were compared in a slightly different manner which tends to over-value credits as compared with the deduction equivalent method. Whether the largest credit or the largest deduction yielded a larger tax saving was determined by comparing the tax saving yielded by the largest deduction with the value of the largest credit.



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